



December 8, 2004

Honorable Mayor, Members of the City Council, City Manager, and Citizens of Morgan Hill:

The Comprehensive Annual Financial Report (CAFR) for the City of Morgan Hill, California for the fiscal year ended June 30, 2004, is submitted for your information and review. The responsibility for the accuracy of the information, and the completeness and fairness of the presentation, including all disclosures, rests with the City's management. To the best of our knowledge, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and the results of operations of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included. The financial statements within this report have been audited by the City's independent auditor, Moss, Levy, and Hartzheim, which has issued an unqualified opinion. The auditor's opinion letter is included in this report.

The City was not required to undergo a single audit for 2003/04 federal assistance to the City under the provisions of The Single Audit Act, as amended in 1996, and the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non Profit Organizations.

This year's report has been formatted, for the second year, to comply with the financial reporting model developed under Governmental Accounting Standards Board (GASB) Statement 34. The new financial reporting model has resulted in significant changes to the format of the City's financial statements. It is intended to improve financial reporting by providing additional information not previously available in local government financial statements. Major changes to the City's CAFR include new government-wide financial statements designed to provide readers with a broad overview of the City in a manner similar to a private business, including a statement of net assets and a statement of activities. It is important to note the following regarding these statements:

- The Statement of Net Assets and the Statement of Activities represent a combination of all of the City's funds, comprising the City's General Fund, Special Revenue, Capital Projects, Debt Service, and Enterprise Funds, including activities which are restricted in nature. Information about individual funds can still be found in the combining statements contained within the CAFR.
- The amount reported as unrestricted in the net assets section of the Statement of Net Assets includes amounts designated by the City Council for general reserve, emergency, economic uncertainty, fire master plan, and Aquatics Complex start-up cost purposes, includes amounts that have accumulated in various internal service funds to be used for the purposes intended for those funds, and includes business-type net assets that have been collected from water and sewer rate payers that are needed to fund ongoing water and sewer operating and capital needs.
- The amount reported as "invested in capital assets" in the net asset section on the Statement of Net Assets represents the portion of capital assets to be depreciated over the remaining useful lives of the assets and is not available for funding additional City projects.
- The amount reported as infrastructure only represents the 2003/04 and 2002/03 additions to the City's infrastructure base, which includes road and park improvements. Staff is planning to perform an inventory of the City's infrastructure which, once complete, will replace the amount reported for infrastructure in these financial statements.

To assist with the reader's review of the City's financial statements, a narrative section called Management's Discussion and Analysis (MDA) has been added. The MDA reports on the financial highlights of the City and provides additional analysis on the variances and trends reported as part of the financial statements. In addition, the MDA is designed to disclose any significant events or decisions that affect the financial condition of the City.

The CAFR is presented in three sections: Introductory, Financial and Statistical. The Introductory Section, which is unaudited, includes this letter of transmittal, a list of the City's elected officials and administrative personnel, an organization chart, an area map, and certificates of award for financial reporting. The Financial Section includes the independent auditor's report on the financial statements and schedules, the MDA, basic financial statements, required supplementary information, and combining and individual fund statements and schedules. The Statistical Section, which is unaudited, includes selected financial and demographic information, generally presented on a multi-year basis.

The financial reporting entity includes all of the funds of the primary government, the City of Morgan Hill, as well as all of its component units. Component units are legally separate entities for which the primary government is fully accountable. The Morgan Hill Wastewater Facilities Financing Corporation and the Redevelopment Agency of the City of Morgan Hill are governed by boards which are substantially the same as the City's governing body. These two component units have been blended into the City's general purpose financial statements because the City is able to impose its will on these component units, and the component units provide services primarily to the City. The Morgan Hill Corporation Yard Commission is a joint powers association between the City and the Morgan Hill Unified School District and it functions for the benefit of the City and the School District. Since the services of the Corporation Yard Commission are not provided primarily to the City, the financial information for the Commission is discretely presented in the combined financial statements so that this information may be separately accounted for.

This report includes all funds of the City. The City provides a broad range of services including police protection, business assistance and housing, water and sanitation services, streets and parks construction and maintenance, planning and engineering, code enforcement, recreation, and general city administration and support services. The City receives fire protection services from the Santa Clara County Fire Department under contract. The City relies on franchised solid waste collection services.

ECONOMIC CONDITIONS AND OUTLOOK

The City Council has consistently faced the challenge of balancing policies that stimulate and support economic growth with maintenance and improvement of the quality of life in Morgan Hill. The City benefits from a diverse local economy which includes a variety of business activities and employers. The largest employers are: Hospira, Anritsu, Morgan Hill Unified School District, Comcast Cable Communications, EDO Reconnaissance & Surveillance Systems, Fox Racing, Paramit Corporation, Specialized Bicycle Components, Media Arts Group, Safeway, and Custom Chrome.

Business attraction, economic development, affordable housing and capital improvements provide the foundation of the City's strategy for enhancing economic growth. Prudence in fiscal matters guides the City's management of its finances.

Goal setting and establishment of priorities based on community input assure that issues important to the citizens of Morgan Hill are appropriately addressed. These issues include access to housing, enhanced recreation facilities, public safety, and emergency services. The City has been responsive to these issues, as shown by the progress toward these goals and the establishment of a solid foundation for the future. In particular, a substantial Capital Improvement Program has included an Aquatics Center that opened in May 2004, the planned construction of a new Indoor Recreation Center within the next two years, and the acquisition and construction of a new Police Facility completed in August 2004. Much of this activity stems from the City's commitment to the redevelopment process through the actions of the Redevelopment Agency.

Currently, Morgan Hill is still experiencing the effects of the slowdown in the regional and State economy. Beginning in the fourth quarter of 2000/01, the City began experiencing the effects of a recession. Unemployment and commercial vacancy rates for the Silicon Valley as a whole increased and have remained high. However, employment for the City's top 40 employers remained stable at about 5,500 between July 2003 and July 2004, and total employment for the City improved by 8% to approximately 11,300 for the same period, according to employment numbers reported to the City by businesses for business license purposes. Property tax collections have continued to increase, reflecting higher residential property values offset somewhat by lower commercial property values.

The downturn in the economy reduced the City's General Fund tax revenue collections in 2003/04. Sales taxes decreased by 12%, due to the continued slump in the economy associated with the loss of jobs throughout the greater Silicon Valley, while franchise, hotel, and other taxes increased by a combined 9%, and licenses and permits increased by 3%. The downturn appears to have stabilized and it appears that tax revenue collections in 2004/05 are increasing. The effects are compounded by the State Government's fiscal crisis and its effects on local government. The State plans to take approximately \$340,000 from property taxes that would normally go to the City in each of the years 2004/05 and 2005/06. However, State voters approved a ballot measure in November 2004 that will make it very difficult for the State to take additional monies away from local governments. In addition, the City plans to open new recreational facilities in the next several years, including an Indoor Recreation Center. The operating costs associated with new facilities, along with rapidly increasing employer retirement system costs, increasing workers compensation costs, and higher contract fire service costs will place significant fiscal pressures upon the General Fund over the next several years. In response, the City Council adopted a sustainable budget strategy, in January 2004, in which the City aims to balance revenues and expenditures by 2007/08 through expenditure reductions, revenue increases, and draws on existing reserve funds, while maintaining a General Fund reserve level equal to at least 25% of annual revenues.

While the General Fund had strong reserves of approximately \$10 million (or 61% of budgeted 2004/05 revenues) at June 2004, without expanded revenue sources, these reserves are projected to drop to approximately 16% of annual revenues by June 2008.

ACCOUNTING SYSTEMS AND BUDGETARY CONTROLS

When developing and evaluating the City's accounting system, consideration is given to the effectiveness of the internal accounting controls. Internal accounting controls are designed to provide reasonable assurance regarding: safeguarding of assets against loss, accuracy and reliability of accounting data, and adherence to prescribed managerial policy. Reasonable assurance recognizes that the cost of a control should not exceed benefits to be derived. The evaluation of costs and benefits requires estimates and judgments by management. We believe the internal accounting controls of the City adequately safeguard assets and provide reasonable assurance of proper recording of the financial transactions.

State statutes and City policy require an approved budget before expenditures are made. Budgets are adopted for all governmental funds and proprietary funds.

Budget proposals are prepared by the City's Department Directors. The budget proposals, with justifications, are submitted to the Finance Department for compilation. The budget is compiled and the City's preliminary budget is presented to the City Manager for review. The City Council reviews the preliminary budget at study sessions open to the public. Changes made at these sessions are incorporated into the final budget. The final budget is then submitted to the City Council for adoption at a public hearing.

The City Council may amend the budget by resolution during the year. The City Manager may transfer appropriations within an activity to facilitate the functions of that activity in accordance with the directions, goals, and policies of the City Council. A transfer of appropriations between activities requires City Council approval and any additional appropriations also require approval by the City Council. The budgeted amounts presented in the report are as originally adopted or, if amended, then as amended by the City Council.

CASH MANAGEMENT

Temporarily idle cash, not restricted for other uses, was primarily invested in the California Local Agency Investment Fund (LAIF) and in U.S. Government Securities. Investments in LAIF are highly liquid, and generally may be converted to cash within twenty-four hours without loss of investment income. Of LAIF's total investments as of June 30, 2004, approximately 13% was invested in Government Bills and Notes, 28% in Federal Agency Coupons and Discount Notes, 16% in CD's, 22% in Commercial Paper and Corporate Bonds, and 21% in other investments. The amount of investment income earned for all funds decreased from the prior year due to average lower interest rates on City investments and due to lower cash balances.

RISK MANAGEMENT

The City is a member of the Association of Bay Area Governments (ABAG). The city participates in the ABAG-PLAN, a self-insured risk pool formed by certain cities in California to pool their insurance risk and help lower the overall cost of providing insurance coverage for general liability claims. The coverage amount is \$10 million per occurrence, subject to a \$100,000 deductible. The City Manager, the Finance Director as Risk Manager, and the City Attorney work with the ABAG-PLAN to coordinate the City's insurance policies, maintain insurance records and represent the City in handling claims.

In addition, the City is fully self-insured for unemployment insurance. The City is also self insured for workers' compensation up to a maximum of \$250,000 for each claim. Purchased insurance covers the excess up to \$5,000,000 per year for workers' compensation claims.

AWARDS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Morgan Hill for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2003. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Such a report must satisfy both generally accepted accounting principles and applicable legal requirements.

The GFOA certificate is valid for a period of one year only. The City has received this certificate for the last ten consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA again this year.

In addition, the City received the Certificate of Award for Outstanding Financial Reporting from the California Society of Municipal Finance Officers (CSMFO), for the ninth consecutive year, for its Comprehensive Annual Financial Report the fiscal year ended June 30, 2003. The criteria for this award are very similar to that of GFOA.

ACKNOWLEDGMENTS

The Comprehensive Annual Financial Report represents many months of work by the City's entire Finance Department staff. Special thanks go to Assistant Finance Director Tina Reza and to Accountants Isabel Jones and Lourdes Reroma for their accomplishments in the preparation of this report. I also wish to express my appreciation to the City Council and City Manager for their leadership and support.

Sincerely,

Jack Dilles
Director of Finance

CITY OF MORGAN HILL, CALIFORNIA

ELECTED OFFICIALS AND CITY STAFF AS OF JUNE 30, 2004

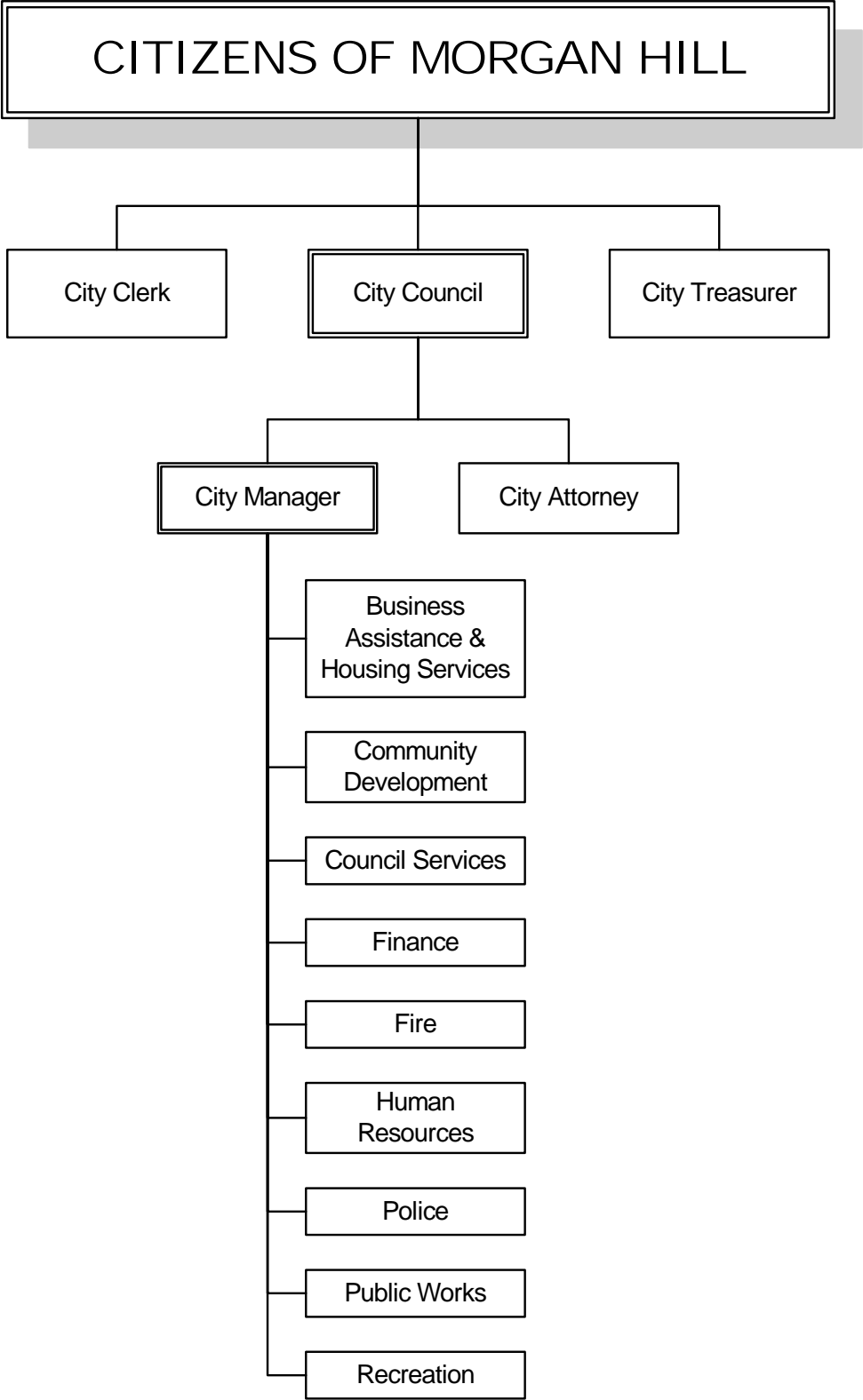
ELECTED OFFICIALS

Dennis Kennedy	Mayor
Greg Sellers	Mayor Pro Tem
Larry Carr	Council Member
Hedy L. Chang	Council Member
Steve Tate	Council Member
Michael J. Roorda	City Treasurer
Irma Torrez	City Clerk

CITY STAFF

J. Edward Tewes	City Manager
Helene Leichter	City Attorney
Jack Dilles	Director of Finance
Vacant	Director of Community Development
Garrett Toy	Director of Business Assistance & Housing Services
Burce Cumming	Interim Chief of Police
Jim Ashcraft	Director of Public Works
Mary Kaye Fisher	Director of Human Resources
Melissa Dile	Assistant to the City Manager
Tony Eulo	Assistant to the City Manager
Irma Torrez	Council Services and Records Manager
Julie Spier	Recreation Manager







Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Morgan Hill,
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



California Society of Municipal Finance Officers

Certificate of Award

Outstanding Financial Reporting 2002-2003

Presented to the

City of Morgan Hill



This certificate is issued in recognition of meeting professional standards and criteria in reporting which reflect a high level of quality in the annual financial statements and in the underlying accounting system from which the reports were prepared.

March 1, 2004

Bret M. Plimlee

Chair, Professional & Technical Standards Committee

Dedicated to Excellence in Municipal Financial Management



Financial Section





MOSS, LEVY & HARTZHEIM

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS:

ROBERT M. MOSS, C.P.A.*
RONALD A. LEVY, C.P.A.*
CRAIG A. HARTZHEIM, C.P.A.*

*DENOTES PROFESSIONAL CORPORATION

802 EAST MAIN
SANTA MARIA, CA 93454
PHONE: (805) 925-2579
FAX: (805) 925-2147
E-MAIL: mlhsm@mlhpcpas.com

INDEPENDENT AUDITORS' REPORT

City Council of the City of Morgan Hill
Morgan Hill, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Morgan Hill (City), as of and for the fiscal year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly in all material respects the financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Morgan Hill as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is supplementary information required by the Governmental Accounting Standards Board, but is not a required part of the basic financial statements. We have applied certain limited procedures to this information, principally inquiries of management regarding the methods of measurement and presentation of this information, but we did not audit this information and we express no opinion on it.

Our audit was made for the purpose of forming a opinions on the basic financial statements of the City of Morgan Hill, taken as a whole. The supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of basic financial statements, and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and the statistical section listed in the table of contents was not audited by us, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on thereon.

MOSS, LEVY AND HARTZHEIM

Moss, Levy & Hartzheim

October 15, 2004

OFFICES: BEVERLY HILLS • SANTA MARIA • SACRAMENTO

MEMBER AMERICAN INSTITUTE OF C.P.A.'s • CALIFORNIA SOCIETY OF C.P.A.'s • CALIFORNIA SOCIETY OF MUNICIPAL FINANCE OFFICERS • CALIFORNIA ASSOCIATION OF SCHOOL BUSINESS OFFICIALS



Management's Discussion and Analysis (MDA)

June 30, 2004

As management of the City of Morgan Hill (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2004. Please read this overview in conjunction with the accompanying letter of transmittal and the accompanying basic financial statements. In compliance with Governmental Accounting Standards Board (GASB) Statement No. 34, comparative data for the prior year is provided.

FINANCIAL HIGHLIGHTS

- During Fiscal Year 2003/04, the City's net assets, representing the difference between total assets and total liabilities, increased by \$25.0 million to \$248.2 million. Of the total net assets, \$77.5 million in unrestricted assets may be used to meet the City's ongoing obligations to citizens. The \$25.0 million increase primarily resulted from the collection of Redevelopment Agency property tax increment and City development impact fees that have been or will be used for capital projects.
- Of the total \$248.2 million in net assets, \$139.0 million represents investments in capital assets, \$31.7 million represents net assets restricted by outside agencies and state regulations for specific purposes, and \$77.5 million represents unrestricted net assets that may be used to meet the City's ongoing obligations to its citizens and creditors.
- Total revenues from all sources were \$78.1 million and total expenses for all City programs were \$49.7 million.
- At June 30 2004, the City had \$30.7 million in long-term debt, comprised of \$4.9 million in debt secured by water revenues, \$21.8 million in wastewater capacity rights payable secured by sewer revenues, \$2.0 million in loans for acquisition and predevelopment expenses associated with multi-family housing rehabilitation and/or new construction secured by liens on real estate owned by recipients of Redevelopment Agency loans, \$1.2 million in special assessment bonds secured by property owner assessments, and \$0.8 million in compensated absences payable.
- At June 30, 2004, the City's governmental funds reported ending fund balances of \$49.9 million, a decrease of \$16.2 million in comparison with the prior year. This decrease was primarily related to a \$14.0 million reduction in Redevelopment Agency fund balance associated with the use of previously collected property tax increment revenues on capital projects.
- The unreserved portion of fund balance in the City's General Fund decreased by \$0.6 million to \$9.9 million. The City Council designated \$3.7 million of this total to provide for a general reserve.
- During Fiscal Year 2003/04, General Fund expenditures exceeded revenues by \$1.0 million, while combined expenditures, transfers out, and changes in the fair market value of investments exceeded combined revenues and transfers by \$1.2 million.
- Actual revenues in the General Fund were \$0.3 million less than the final budget primarily because of a decline in sales taxes.

- Actual expenditures in the General Fund were \$0.7 million less than the final budget primarily because of expenditure reduction controls placed upon City departments by management under the direction of the City Council.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which are comprised of three components:

- Government-wide financial statements – These include the Statement of Net Assets and Statement of Activities. These statements provide information about the activities of the City as a whole and about the overall financial condition of the City in a manner similar to a private-sector business. These statements are described in more detail in a subsequent section in this MDA and can be found on pages 19 and 20 of this report.
- Fund financial statements – These statements provide additional information about the City's major funds, including how services were financed in the short term and fund balances available for financing future projects. These statements are described in more detail in a subsequent section of this MDA and can be found on pages 21 through 32 of this report.
- Notes to the financial statements – The notes provide additional detail that is essential to a full understanding of the information provided in the government-wide and fund financial statements. The notes can be found on pages 33 through 64 of this report.

A. Government-Wide Financial Statements

These statements include all assets and liabilities of the City using the *accrual* basis of accounting, which is similar to the accounting used by most private sector companies. All current year revenues and expenses are accounted for regardless of when the cash is paid or received.

These statements report the City's net assets and related changes. Net assets, the difference between assets and liabilities, are one way to measure the City's financial position. Over time, increases or decreases in net assets are indicators of whether the financial condition of the City is improving or deteriorating. However, it is also important to consider other non-financial factors, such as changes in the City's property tax and sales tax bases or in the condition of the City's infrastructure (i. e. parks and streets), to accurately assess the overall health of the City.

These statements present information about the City's activities, all of which are considered governmental in nature. These include services provided for general government, public safety (police and fire), community development, public works development (streets and parks), recreation & culture, sewer, and water. These services are funded from monies received from property, sales, and other taxes, direct charges for services provided, grants, contributions from other agencies, and development impact fees collected from new development.

B. Fund Financial Statements

These statements provide more detailed information about the City's major funds. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories, which are governmental funds, proprietary funds, and fiduciary funds.

Governmental funds: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented by governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 31 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and for the Redevelopment Agency capital projects fund, as they qualify to be classified as major funds. Data for the other 29 governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements included elsewhere in this report.

The City adopts an annual appropriated budget for each of the City's governmental funds. A budgetary comparison statement has been provided for each governmental fund to demonstrate compliance with this budget.

Proprietary funds: The City maintains two different types of proprietary funds, which are *enterprise funds* and *internal service funds*. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for sewer and water operations, as well as for sewer and water mitigation activities.

Internal service funds are accounting devices used to accumulate and allocate costs internally among the City's various functions and to build up reserves for the replacement of capital assets. The City uses internal service funds to account for building maintenance, information systems, unemployment insurance, workers' compensation, general liability claims, equipment replacement, and capital improvement program administration. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. All seven internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report. The proprietary fund financial statements provide separate information for sewer operations, sewer mitigation, water operations, and water mitigation, all of which are presented as major funds of the City because of significant public interest.

Fiduciary Funds: The City acts as a trustee, or fiduciary, in collecting assessments and remitting bond payments for the Morgan Hill Business Ranch, Tennant Business Park, and Madrone Business Park assessment districts. The City has no legal, contingent, or moral obligation for the repayment of the debt associated with these particular assessment districts and merely ensures that assets received are used for their intended purposes. In addition, the City maintains a Special Deposits Fund in which the City accounts for deposits held in trust for the benefit of third parties. Therefore, these fiduciary activities are excluded from the City's fund financial statements because these assets cannot be used to finance operations. The activity for this fund, however, is provided for in a separate combining statement of changes in assets and liabilities contained elsewhere in this report.

C. Notes to the Financial Statements

The notes provide additional detail that is essential to a full understanding of the information provided in the government-wide and fund financial statements. The notes can be found on pages 33 through 64 of this report.

D. Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide certain pension benefits to its employees. Required information can be found on page 65 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The City's combined net assets for the Fiscal Year ended June 30, 2004, were \$248.2 million. A significant portion of the City's net assets (\$139.0 million or 56%) reflects the City's investment in capital assets (e. g. land, infrastructure, buildings, and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

An additional portion of the City's net assets (\$31.7 million or 13%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$77.5 million or 31%) may be used to meet the City's ongoing obligations to citizens and creditors. The total \$77.5 million in unrestricted net assets is comprised of \$66.2 million in governmental unrestricted net assets and \$11.3 million in business-type unrestricted net assets. The governmental unrestricted net assets include City Council designations totaling \$3.7 million of General Fund dollars for general reserve purposes, include \$5.5 million in dollars that have accumulated in various internal service funds to be used for the purposes intended for those funds, include \$9.5 million in unencumbered capital project funds not associated with development impact fees, include \$4.9 million in encumbrances committed to purchases, include , include \$35.0 million in deferred revenues not currently available, and include \$7.6 million of other funds that are available. The \$11.3 million in unrestricted business-type net assets are funds that have been collected from water and sewer rate payers and are needed to fund ongoing water and sewer operating and capital needs.

The table below summarizes the City's net assets:

CITY OF MORGAN HILL NET ASSETS

	Governmental Activities	Business- Type Activities	Totals
Current and other assets	97,624,264	26,465,976	124,090,240
Capital assets	87,083,599	77,246,184	164,329,783
Total assets	184,707,863	103,712,160	288,420,023
Long-term liabilities	3,987,641	26,706,656	30,694,297
Other liabilities	7,779,952	1,753,657	9,533,609
Total liabilities	11,767,593	28,460,313	40,227,906
<i>Net assets:</i>			
Invested in capital assets, net of related debt	87,083,599	51,921,214	139,004,813
Restricted	19,681,778	12,000,958	31,682,736
Unrestricted	66,174,893	11,329,675	77,504,568
Total net assets	172,940,270	75,251,847	248,192,117

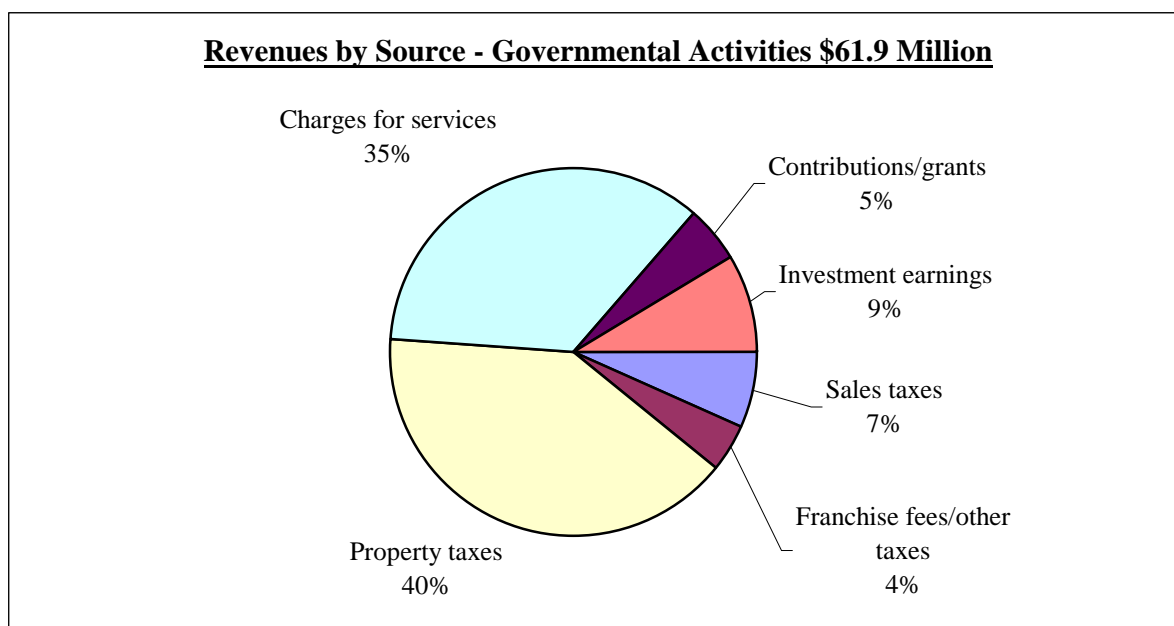
Governmental activities: The charts below summarize major expenditure program categories, program revenues used to fund specific expenditure programs, and general City revenues available for funding all City programs.

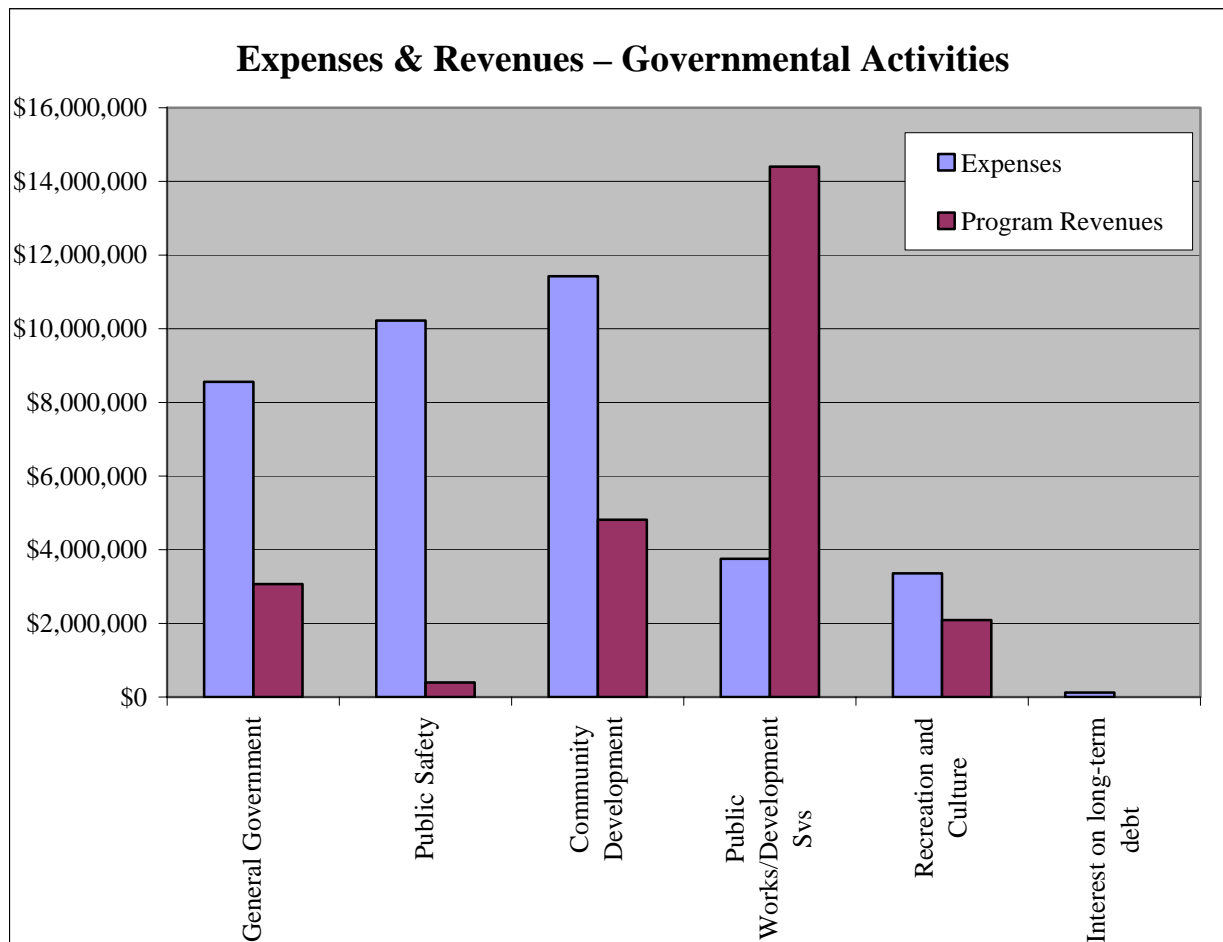
Governmental activities increased the City's net assets by \$25.0 million, thereby accounting for 88% of the total growth in net assets for the City. This change was primarily resulted to the \$28.8 million increase in capital assets during the year.

CITY OF MORGAN HILL CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2003/04</u>	<u>2002/03</u>	<u>2003/04</u>	<u>2002/03</u>	<u>2003/04</u>	<u>2002/03</u>
Revenues:						
<u>Program Revenues:</u>						-
Charges for services	\$ 21,790,999	\$ 14,530,323	\$ 15,714,410	\$ 12,354,701	\$ 37,505,409	\$ 26,885,024
Operating grants & contributions	2,695,875	3,010,086	-	192,299	2,695,875	3,202,385
Capital grants & contributions	276,677	120,141	-	-	276,677	120,141
<u>General Revenues:</u>						
Property taxes	25,045,268	24,226,642	-	-	25,045,268	24,226,642
Sales taxes	4,070,030	4,636,927	-	-	4,070,030	4,636,927
Franchise taxes	2,628,604	2,401,341	-	-	2,628,604	2,401,341
Other general revenue taxes	48,177	43,600	-	-	48,177	43,600
Unrestricted investment earnings	5,356,675	11,706,815	600,073	537,303	5,956,748	12,244,118
Total Revenues	61,912,305	60,675,875	16,314,483	13,084,303	78,226,788	73,760,178
					-	
Expenses:						
General Government	8,560,110	6,684,625			8,560,110	6,684,625
Public Safety	10,221,986	9,467,613			10,221,986	9,467,613
Community Development	11,425,408	2,678,838			11,425,408	2,678,838
Public Works/Development Services	3,754,817	3,231,907			3,754,817	3,231,907
Recreation and Culture	3,358,632	1,440,595			3,358,632	1,440,595
Interest on long-term debt	121,532	372,209			121,532	372,209
Sewer			6,767,764	6,274,448	6,767,764	6,274,448
Water	-		5,512,709	5,641,739	5,512,709	5,641,739
Total Expenses	37,442,485	23,875,787	12,280,473	11,916,187	49,722,958	35,791,974
					-	
Increase in net assets before transfers	24,469,820	36,800,088	4,034,010	1,168,116	28,503,830	37,968,204
Transfers	557,843	635,000	(665,000)	(635,000)	(107,157)	-
Increase in net assets	25,027,663	37,435,088	3,369,010	533,116	28,396,673	37,968,204
Net assets - beginning of year*	147,912,607	113,712,651	71,882,837	71,297,179	219,795,444	185,009,830
Net assets - year-end	\$ 172,940,270	\$ 151,147,739	\$ 75,251,847	\$ 71,830,295	\$ 248,192,117	\$ 222,978,034

* Beginning net assets at 7/1/03 have been restated

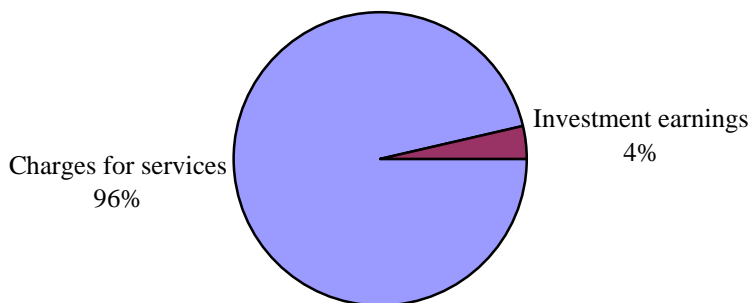




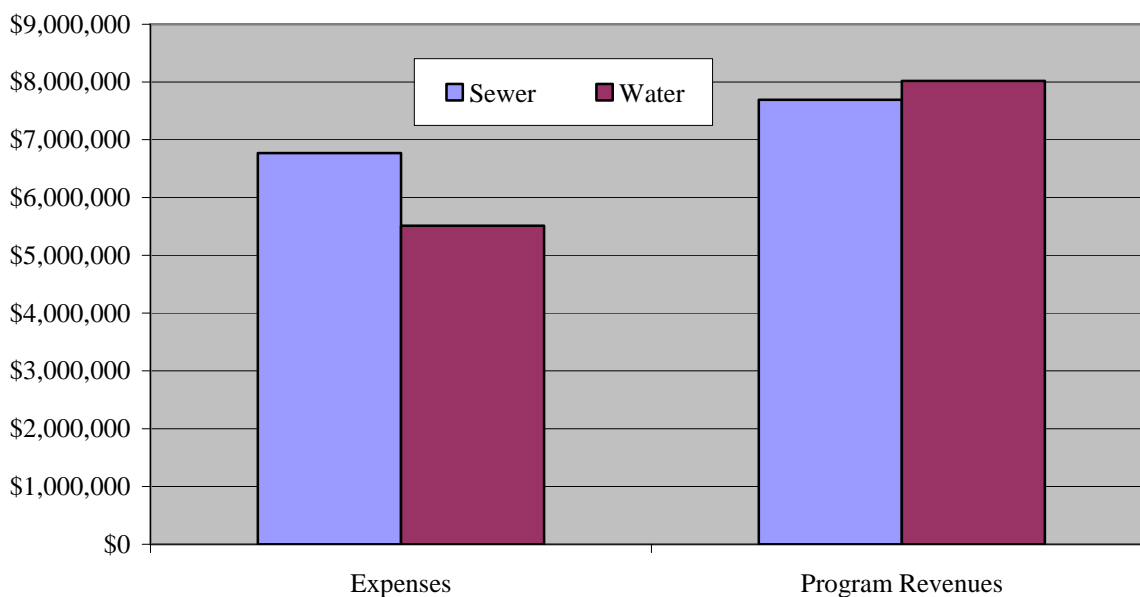
Business-type activities: Business-type activities increased the City's net assets by \$3.4 million, thereby accounting for 12% of the total growth in net assets for the City. Key elements of changes are as follows:

- Net assets for Sewer Operations decreased by \$1.0 million as expenses exceeded revenues and used available retained earnings. However, operating income for Sewer Operations, which excludes transfers and additions to capital assets, decreased by \$1.8 million as reserves were drawn down
- Net assets for Sewer Mitigation and Water Operations increased by \$1.9 million and \$1.6 million, respectively. However, operating income for Water Operations, which excludes transfers and additions to capital assets, increased by \$0.5 million..
- Net assets for Water Mitigation increased by \$0.9 million.

Revenues by Source – Business-Type Activities



Expenses & Program Revenues – Business-Type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of June 30, 2004, the City's governmental funds reported combined ending fund balances of \$49.9 million, a decrease of \$16.2 million in comparison with the prior year.

Of this decrease in fund balances, approximately \$14.0 million related to the Redevelopment Agency, and resulted primarily from the expenditure of monies for capital projects.

GENERAL FUND

The General Fund is the chief operating fund of the City. At the end of Fiscal Year 2003/04, total fund balance for the General Fund amounted to \$10.0 million, including \$0.1 million reserved for encumbrances,. Of the remaining \$9.9 million, \$3.7 million has been designated by the City Council as a general reserve.

During Fiscal year 2003/04, expenditures exceeded revenues by \$1.0 million; or, if transfers and changes in the fair value of investments were included, expenditures, transfers out, and changes in the fair value of investments exceeded revenues and transfers in by \$1.2 million.

Significant changes in Revenues and Expenditures that affected the change in fund balance for the General Fund are as follows:

a. Revenue Highlights

Property taxes increased by 9% over the prior year primarily due to a general overall increase in assessed property values in the City associated with a strong housing market and due to the addition of new residential units.

Sales taxes decreased by 12%, due to a continued slump in the economy associated with the loss of jobs in the greater Silicon Valley, while franchise, hotel, and other taxes increased by 9%, and licenses & permits increased by 3%.

Charges for current services increased by 21% primarily because of a significant increase in recreation program revenues associated with the opening of the City's new Aquatics Center and with the completion of the first full year of Community & Cultural Center operations. In addition, the City increased its cost allocation revenues in 2003/04.

Investment and rental income increased by 74% primarily because of expanded rental operations associated with the Community and Cultural Center. In addition, the City accounted for an \$857,000 valuation reduction for investments between June 2003 and June 2004. This valuation difference reflects the City's investment "buy and hold philosophy."

b. Expenditure Highlights

The 4% overall increase in General Fund expenditures combines expanded recreational activities with flat expenditures for most other General Fund operations.

c. Budgetary Highlights

Over the course of the year, the City Council revised the City budget with adjustments that fell into one of the following three categories:

- Charges to adjust appropriations for capital project and encumbrance carryovers from the prior year.
- Charges made during the year to adjust revenues and augment current year appropriations
- Other revenue and expenditure adjustments approved after the original budget was adopted.

Budget adjustments approved by the City Council during Fiscal Year 2003/04 were primarily related to projects and encumbrances carried over from the prior year, unanticipated legal costs, and implementation of recreation programs.

After taking into account these adjustments, actual expenditures were \$0.8 million less than final budget amounts. Of the total, approximately \$0.4 million related to police services, \$0.2 million related to recreation, \$0.1 million related to park maintenance, and the balance related to other City services. Most of the savings were associated with departmental labor and other costs associated with a City-wide cost reduction program initiated to confront the City's reduced sales tax base and increasing operating costs such as higher retirement system costs.

REDEVELOPMENT AGENCY CAPITAL PROJECTS FUND

The Redevelopment Agency Capital Projects Fund accounts for property tax increment revenues received by the Redevelopment Agency. The funds received are used to pay for capital projects in accordance with Redevelopment Plan, for economic development, and for affordable housing programs. At the end of Fiscal year 2003/04, the total fund balance for the Redevelopment Agency was \$10.7 million, of which \$6.9 million was reserved for affordable housing, \$2.9 million was reserved for encumbrances, and \$0.9 million was available to be spent on certain capital projects described in the Redevelopment Plan.

During Fiscal Year 2003/04, Redevelopment Agency revenues exceeded expenditures by \$16.2 million. The excess was due to the timing of capital project expenditures. Existing fund balances and Fiscal Year 2003/04 revenues were used to pay for the following major capital projects during Fiscal year 2003/04:

- Completion of Butterfield Blvd. Phase IV construction
- Completion of Aquatics Complex
- Completion of design of an Indoor Recreation Center
- Library Land Purchase
- Sports Complex Land Purchase

PROPRIETARY FUNDS

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets at June 30, 2004, amounted to \$11.0 million for Sewer Operations, \$0 for Sewer Mitigation, \$7.0 million for water operations, and \$0 for water mitigation. In addition, Sewer Mitigation had \$5.7 million in net assets restricted for capital expansion. The total growth for all four funds combined was \$3.4 million, as previously described above.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets: The City's investment in capital assets for its governmental activities as of June 30, 2004, amounted to \$87.1 million (net of accumulated depreciation), as summarized below. This investment in capital assets includes land, buildings, park and roadway improvements, vehicles & other equipment, infrastructure, and construction in progress, as summarized in the schedule below. During the current fiscal year, the City's investment in capital assets increased by approximately \$28.8 million, or 49%:

	Governmental Activities June 30, 2004
<u>Item:</u>	
Land	\$ 28,304,460
Buildings & Other Improvements	41,461,491
Machinery, Equipment, & Vehicles	337,161
Infrastructure	10,281,978
Construction In Progress	6,698,509
Total Governmental Capital Assets	<u>\$ 87,083,599</u>

Major capital asset events during the current fiscal year included the following:

<u>Capital Project:</u>	<u>2003/04 Expenditures</u>
Aquatics Center	\$ 9,685,551
Sports Complex Property Purchase	2,551,198
Library Land Purchase	1,738,103
Police Facility Construction	2,517,824
Indoor Recreation Center Design	3,995,819
Butterfield Blvd. Phase IV Construction	4,722,572

LONG-TERM DEBT

At the end of Fiscal Year 2003/04, the City had long-term debt outstanding of \$30.7 million. Of this amount, \$0.8 million comprises debt backed by the full faith and credit of the City, \$1.2 million is special assessment debt for which the City is liable only in the event of default by the property owners subject to the assessments, and \$2.0 million relates to loans for acquisition and predevelopment expenses associated with multi-family housing rehabilitation and/or new construction secured by liens on real estate owned by loan recipients. The remainder of the City's debt primarily represents bonds secured solely by specified water and sewer sources.

The City's total debt decreased by approximately \$6.0 million (16 %) during Fiscal Year 2003/04. Most of this decrease was related to loan payments made by the Redevelopment Agency for properties previously purchased by the Agency.

During Fiscal Year 2003/04, the City refinanced existing water loan to take advantage of favorable interest rates. The result was an annual reduction of approximately \$92,000 in 2003/04 and a reduction of approximately \$18,000 in debt service payments for each of the next 13 years.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Given the state of the local economy and the significant deficits forecast as part of the State of California Budget, caution was exercised in developing the City's budget for Fiscal year 2004/05. The City's adopted budget for Fiscal year 2004/05 was \$83.8 million, including \$34.0 million for capital projects and \$49.8 million for operations. The amount budgeted for operations in Fiscal year 2004/05 represents an increase of 9% compared to Fiscal year 2003/04.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the following address: City of Morgan Hill, Finance Department, 17555 Peak Avenue, Morgan Hill, CA 95037.



Basic Financial Statements



Government-Wide Financial Statements



City of Morgan Hill
Statement of Net Assets
June 30, 2004

	Primary Government			Component Unit
	Governmental	Business-Type		MH Corporation
	Activities	Activities	Total	Yard Commission
<u>Assets</u>				
Pooled cash and investments (Note 4)	\$ 46,055,657	\$ 16,123,955	\$ 62,179,612	\$ 46,685
Restricted pooled cash and investments	13,482,136	6,339,728	19,821,864	
Cash with fiscal agents		2,283,709	2,283,709	
Receivables:				
Taxes and special assessments	2,950,888		2,950,888	
Accrued interest	198,985	123,530	322,515	40,094
Other accounts receivable	1,357,989	1,583,326	2,941,315	123
Deposit in Escrow/Prepaid items	153,252		153,252	
Investment in properties held for resale (Note 2)	71,049		71,049	
Loans receivable (Note 6)	33,354,308	11,728	33,366,036	
Capital assets, Net (Note 5)				
Non-Depreciable	35,002,969	3,939,254	38,942,223	
Depreciable	52,080,630	53,850,905	105,931,535	224,760
Sewer capacity rights (Note 8)		19,456,025	19,456,025	
Total Assets	184,707,863	103,712,160	288,420,023	311,662
<u>Liabilities</u>				
Accounts payable	5,987,669	1,256,065	7,243,734	28,626
Accrued liabilities	1,375,029	459,550	1,834,579	
Customer and other deposits	96,812	38,042	134,854	
Deferred revenue	320,442		320,442	
Total current liabilities	7,779,952	1,753,657	9,533,609	28,626
Non-current liabilities (Note 7 & 8)				
Due within one year	331,849	1,248,475	1,580,324	
Due in more than one year	3,655,792	25,458,181	29,113,973	
Total Non-current liabilities	3,987,641	26,706,656	30,694,297	
Total Liabilities	11,767,593	28,460,313	40,227,906	28,626
<u>Net Assets</u> (Note 10)				
Invested in capital assets	87,083,599	51,921,214	139,004,813	
Restricted for:				
Low and moderate income housing	6,850,282		6,850,282	
Capital expansion project	12,432,436	9,717,249	22,149,685	
Debt service	399,060	2,283,709	2,682,769	
Unrestricted	66,174,893	11,329,675	77,504,568	283,036
Total Net Assets	\$ 172,940,270	\$ 75,251,847	\$ 248,192,117	\$ 283,036

See accompanying notes to financial statements

**City of Morgan Hill
Statement of Activities
For the Year Ended June 30, 2004**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit Corporation Yard
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental Activities:								
General government	\$ 8,560,110	\$ 1,151,647	1,915,715	\$ -	\$ (5,492,748)	\$ -	\$ (5,492,748)	\$ -
Public safety	10,221,986	294,185		100,000	(9,827,801)		(9,827,801)	
Community development	11,425,408	4,520,426	114,644	176,677	(6,613,661)		(6,613,661)	
PW/development	3,754,817	13,736,245	665,516		10,646,944		10,646,944	
Recreation & culture	3,358,632	2,088,496			(1,270,136)		(1,270,136)	
Interest on long-term debt	121,532				(121,532)		(121,532)	
Total government activities	37,442,485	21,790,999	2,695,875	276,677	(12,678,934)	-	(12,678,934)	\$ -
Business-type activities:								
Sewer	6,767,764	7,694,036				926,272	926,272	
Water	5,512,709	8,020,374				2,507,665	2,507,665	
Total business-type activities	12,280,473	15,714,410	\$ -	\$ -	\$ -	3,433,937	3,433,937	\$ -
Total primary government	\$ 49,722,958	\$ 37,505,409	\$ 2,695,875	\$ 276,677	\$ (12,678,934)	\$ 3,433,937	\$ (9,244,997)	\$ -
Component units:								
Corporation Yard	\$ 214,985	\$ 233,170						\$ 18,185
General revenues:								
Property taxes					25,045,268		25,045,268	
Sales taxes					4,070,030		4,070,030	
Franchise taxes					2,628,604		2,628,604	
Other general revenue taxes					48,177		48,177	
Unrestricted investment earnings					5,356,675	600,073	5,956,748	7,641
Transfers					557,843	(665,000)	(107,157)	
Total general revenues and transfers					37,706,597	(64,927)	37,641,670	7,641
Change in net assets					25,027,663	3,369,010	28,396,673	25,826
Net assets - beginning					151,147,739	71,830,295	222,978,034	412,796
Prior year reporting error (Note 15)					(3,235,132)	139,430	(3,095,702)	
Prior period adjustments (Note 15)						(86,888)	(86,888)	
Net assets - adjusted beginning					147,912,607	71,882,837	219,795,444	
Net assets - ending					\$ 172,940,270	\$ 75,251,847	\$ 248,192,117	\$ 438,622

The notes to the financial statements are an integral part of this statement.

**City of Morgan Hill
Balance Sheet
Governmental Funds
June 30, 2004**

	General	Redevelopment Agency	Other Governmental Funds	Total Governmental Funds
<u>Assets</u>				
Pooled cash and investments	\$ 10,458,394	\$ 13,422,449	\$ 15,938,439	\$ 39,819,282
Restricted pooled cash and investments			13,442,136	13,442,136
Cash with fiscal agents				
Receivables:				
Taxes and special assessments	1,156,323	139,349	1,655,216	2,950,888
Accrued interest	39,085	40,365	105,246	184,696
Other accounts receivable	445,531	139,784	729,560	1,314,875
Deposit in Escrow/Prepaid items	21,252		132,000	153,252
Investment in properties held for resale (Note 2)		71,049		71,049
Notes receivable				
Loans receivable	437,986	32,158,971	757,351	33,354,308
Total Assets	12,558,571	45,971,967	32,759,948	91,290,486
<u>Liabilities and Fund Balance</u>				
Liabilities:				
Accounts payable	1,370,147	3,047,426	1,130,152	5,547,725
Accrued liabilities	357,987	41,215	68,677	467,879
Deferred revenue (Note 6)	759,428	32,155,843	2,412,566	35,327,837
Customer and other deposits	29,834			29,834
Total Liabilities	2,517,396	35,244,484	3,611,395	41,373,275
Fund Balances:				
Reserved for:				
Encumbrances	131,211	2,935,266	1,841,210	4,907,687
Low and moderate income housing		6,850,282		6,850,282
Noncurrent loans receivable				
Investment in properties held for resale		71,049		71,049
Restricted Cash				
Debt service			399,060	399,060
Capital expansion project			12,432,436	12,432,436
Unreserved, reported in:				
General fund	9,909,964			9,909,964
Special revenue funds			5,889,146	5,889,146
Debt service funds				
Capital project funds		870,886	8,586,701	9,457,587
Total fund balances	10,041,175	10,727,483	29,148,553	49,917,211
Total Liabilities and Fund Balance	\$ 12,558,571	\$ 45,971,967	\$ 32,759,948	

Amounts reported for governmental activities in the statement of net assets are different because:

Internal service funds are used by management to charge the costs of building maintenance management information systems, fleet management, general liability, workers' compensation and CIP administration to the individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	5,490,729
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	86,506,701
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(3,987,641)
Revenues earned but not available (deferred) are not recorded in the funds.	35,013,270
Net assets of governmental activities	\$ 172,940,270

See accompanying notes to financial statements

City of Morgan Hill
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

	General	Redevelopment Agency	Other Governmental Funds	Total Governmental Funds
<u>Revenues</u>				
Property taxes and special assessments	\$ 2,522,916	\$ 22,049,507	\$ 698,184	\$ 25,270,607
Sales taxes	4,070,030	902,947		4,972,977
Franchise, hotel and other taxes	2,628,604	677,893		3,306,497
Licenses and permits	202,784			202,784
Funding from other governmental agencies	1,915,715		961,689	2,877,404
Charges for current services	2,688,200		6,445,722	9,133,922
Investment income and rentals	786,313		722,192	1,508,505
Fines, forfeitures and other revenues	171,997		3,390,067	3,562,064
Total Revenues	14,986,559	23,630,347	12,217,854	50,834,760
<u>Expenditures</u>				
Current				
General government	3,004,337	5,446,607	20,514	8,471,458
Public safety	10,165,330		26,161	10,191,491
Community Development		3,408,913	2,503,556	5,912,469
Housing Services		5,163,567		5,163,567
Streets and Highways			1,748,133	1,748,133
Parks and Recreation	2,772,410		2,247	2,774,657
Other Public Services			1,789,050	1,789,050
Capital outlay				
Capital assets	72,445		668,971	741,416
Construction projects		15,737,390	4,326,373	20,063,763
Land Acquisition		4,251,862	506,966	4,758,828
Debt Service				
Principal		5,800,000	115,000	5,915,000
Interest and fiscal charges			121,532	121,532
Total Expenditures	16,014,522	39,808,339	11,828,503	67,651,364
Excess (deficiency) of revenues over (under) expenditures	(1,027,963)	(16,177,992)	389,351	(16,816,604)
Other financing sources (uses)				
Change/fair value investment	(857,195)			(857,195)
Transfers In from City of Morgan Hill	777,058	1,634,282	2,695,432	5,106,772
Transfers Out to City of Morgan Hill	(111,354)	(375,447)	(4,043,648)	(4,530,449)
Proceeds from long-term debt (Note 7)		900,000		900,000
Total other financing sources and uses	(191,491)	2,158,835	(1,348,216)	619,128
Net change in fund balances	(1,219,454)	(14,019,157)	(958,865)	(16,197,476)
Fund Balance - Beginning	11,463,507	45,185,603	30,556,013	87,205,123
Reclassification of fund balance reserve to deferred revenue (Note 15)		(20,354,337)	(448,595)	(20,802,932)
Adjustments to beginning fund balance (Note 15)	(202,878)	(84,626)		(287,504)
Fund Balance - Ending	\$ 10,041,175	\$ 10,727,483	\$ 29,148,553	\$ 49,917,211

See accompanying notes to financial statements

City of Morgan Hill
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2004

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances-total governmental funds	\$ (16,197,476)
Governmental funds report capital outlay as expenditures. This is the amount of capital outlay that has been recorded as an asset on the statement of net assets.	25,564,007
Governmental funds report the payment of debt service as an expenditure. Payments for debt service reduce liabilities on the statement of net assets.	5,915,000
The value of donated infrastructure assets are recognized as a revenue on the statement of activities.	8,113,843
Revenues in the statement of activities that do not provide current financial resources are reported as a revenue, instead of a liability, on the statement of activities.	3,739,867
Liabilities for expenditures, even though not requiring the use of current financial resources, are reported on the statement of activities.	(1,017,568)
Depreciation expense is reported in connection with all of a governments depreciable assets.	(1,457,612)
Revenues involving parties outside the primary government need to be included as part of revenues for governmental activities in the government-wide financial statements.	62,550
Any net profit from Internal Service Funds need to be removed from the government wide statement of activities, net of transfers	<u>305,052</u>
Change in net assets of governmental activities	<u>\$ 25,027,663</u>

**City of Morgan Hill
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund balances - Budget and Actual
For the Year Ended June 30, 2004**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	
<u>Revenues</u>				
Property taxes and special assessments	\$ 2,172,200	\$ 2,172,200	\$ 2,522,916	\$ 350,716
Sales taxes	4,650,000	4,650,000	4,070,030	(579,970)
Franchise, hotel and other taxes	2,391,980	2,391,980	2,628,604	236,624
Licenses and permits	202,600	202,600	202,784	184
Funding from other governmental agencies	2,351,900	2,351,900	1,915,715	(436,185)
Charges for current services	2,590,737	2,590,737	2,688,200	97,463
Investment income and rentals	775,550	775,550	786,313	10,763
Fines, forfeitures and other revenues	114,900	114,900	171,997	57,097
Total revenues	15,249,867	15,249,867	14,986,559	(263,308)
<u>Expenditures:</u>				
General government				
Council	194,400	219,500	213,607	5,893
City Attorney	615,917	661,917	661,243	674
City Manager	391,162	391,162	363,875	27,287
Human Resources	617,129	617,129	566,563	50,566
City Clerk	404,790	380,551	329,719	50,832
Finance	889,208	906,223	908,489	(2,266)
Medical services		5,000	5,000	
Total General Government	3,112,606	3,181,482	3,048,496	132,986
Public Safety				
Police	6,740,507	6,786,525	6,447,734	338,791
Fire	3,745,220	3,745,220	3,744,977	243
Total Public Safety	10,485,727	10,531,745	10,192,711	339,034
Culture and recreation				
Recreation	1,867,724	1,994,969	1,957,959	37,010
Cable TV/Comm.& Marketing	151,812	158,820	143,124	15,696
Park Maintenance	810,323	822,840	730,998	91,842
Total Culture and recreation	2,829,859	2,976,629	2,832,081	144,548
Capital Outlay	17,000	122,654	72,445	50,209
Total Expenditures	16,445,192	16,812,510	16,145,733	666,777
Excess (deficiency) of revenues over (under) expenditures	(1,195,325)	(1,562,643)	(1,159,174)	403,469
Other Financing sources (uses):				
Change/fair value investment			(857,195)	(857,195)
Transfers in	823,986	823,986	777,058	(46,928)
Transfers (out)		(111,354)	(111,354)	-
Total other financing sources (uses)	823,986	712,632	(191,491)	(904,123)
Net change in fund balances	(371,339)	(850,011)	(1,350,665)	(500,654)
Adjustments to budgetary basis			131,211	
Fund Balances-Beginning	11,463,507	10,927,436	11,463,507	
Adjustments to beginning fund balance			(202,878)	
Fund Balances-Ending	\$ 11,092,168	\$ 10,077,425	\$ 10,041,175	\$ (500,654)

See accompanying notes to financial statements

City of Morgan Hill
Proprietary Funds
Statement of Net Assets
For the Year Ended June 30, 2004

	Business-Type Activities		
	Enterprise Funds		
	Sewer Operations	Sewer Mitigation	Water Operations
<u>Assets</u>			
Current assets:			
Pooled cash and investment(Note 4)	\$ 9,813,984		\$ 6,309,971
Restricted pooled cash and investments		\$ 6,332,542	
Cash with fiscal agents	1,893,448		390,261
Receivables:			
Accrued interest	77,436	21,670	24,424
Other accounts receivable	631,287	7,573	944,466
Due from other funds (Note 11)			273,763
Notes receivable - current		2,592	
Total current assets	<u>12,416,155</u>	<u>6,364,377</u>	<u>7,942,885</u>
Noncurrent assets:			
Notes receivable - long term		9,136	
Capital assets, net (Note 5)			
Non-Depreciable	135,586	806,408	1,902,356
Depreciable	18,583,454	3,230,168	28,615,547
Sewer capacity rights (Note 8)	19,456,025		
Total noncurrent assets	<u>38,175,065</u>	<u>4,045,712</u>	<u>30,517,903</u>
Total Assets	<u>50,591,220</u>	<u>10,410,089</u>	<u>38,460,788</u>
<u>Liabilities</u>			
Current liabilities			
Accounts payable	71,788	582,212	502,951
Accrued liabilities	272,910	110,628	76,012
Customer and other deposits			38,042
Due to other funds (Note 11)			
Deferred revenue			
Current obligations for:			
Bonds payable			261,807
Capacity rights payable	975,000		
Compensated absences	1,892		9,776
Total current liabilities	<u>1,321,590</u>	<u>692,840</u>	<u>888,588</u>
Noncurrent liabilities			
Long term obligations for:			
Bonds payable (Note 7)			4,590,476
Compensated absences (Note 7)	51,434		81,777
Capacity rights payable (Note 8)	20,734,494		
Total noncurrent liabilities	<u>20,785,928</u>	<u>-</u>	<u>4,672,253</u>
Total Liabilities	<u>22,107,518</u>	<u>692,840</u>	<u>5,560,841</u>
Net Assets: (Note 10)			
Invested in capital assets	17,440,571		25,927,427
Restricted for Capital Expansion		9,717,249	
Cash with fiscal agents	1,893,448		390,261
Unrestricted	11,043,131		6,972,520
Total Net Assets	<u>\$ 28,483,702</u>	<u>\$ 9,717,249</u>	<u>\$ 32,899,947</u>

City of Morgan Hill
Proprietary Funds
Statement of Net Assets
For the Year Ended June 30, 2004

	Business-Type Activities		Governmental
	Enterprise Funds		Activities
	Water		Internal Service
	Mitigation	Totals	Funds
<u>Assets</u>			
Current assets:			
Pooled cash and investment(Note 4)		\$ 16,123,955	\$ 6,236,375
Restricted pooled cash and investments	\$ 7,186	6,339,728	40,000
Cash with fiscal agents		2,283,709	
Receivables:			
Accrued interest		123,530	14,289
Other accounts receivable		1,583,326	43,114
Due from other funds (Note 11)		273,763	
Notes receivable - current		2,592	
Total current assets	7,186	26,730,603	6,333,778
Noncurrent assets:			
Notes receivable - long term		9,136	
Capital assets, net (Note 5)			
Non-Depreciable	1,094,904	3,939,254	
Depreciable	3,421,736	53,850,905	576,898
Sewer capacity rights (Note 8)		19,456,025	
Total noncurrent assets	4,516,640	77,255,320	576,898
Total Assets	4,523,826	103,985,923	6,910,676
<u>Liabilities</u>			
Current liabilities			
Accounts payable	99,114	1,256,065	439,944
Accrued liabilities		459,550	907,150
Customer and other deposits		38,042	
Due to other funds (Note 11)	273,763	273,763	
Deferred revenue			
Current obligations for:			
Bonds payable		261,807	
Capacity rights payable		975,000	
Compensated absences		11,668	5,875
Total current liabilities	372,877	3,275,895	1,352,969
Noncurrent liabilities			
Long term obligations for:			
Bonds payable (Note 7)		4,590,476	
Compensated absences (Note 7)		133,211	66,978
Capacity rights payable (Note 8)		20,734,494	
Total noncurrent liabilities	-	25,458,181	66,978
Total Liabilities	372,877	28,734,076	1,419,947
Net Assets: (Note 10)			
Invested in capital assets	4,150,949	51,921,214	576,898
Restricted for Capital Expansion		9,717,249	
Cash with fiscal agents		2,283,709	
Unrestricted		13,613,384	4,913,831
Total Net Assets	\$ 4,150,949	\$ 75,251,847	\$ 5,490,729

City of Morgan Hill
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended June 30, 2004

	Business-Type Activities Enterprise Funds		
	<u>Sewer Operations</u>	<u>Sewer Mitigation</u>	<u>Water Operations</u>
<u>Operating Revenues:</u>			
Charges for current services	\$ 5,488,808	\$ 2,205,228	\$ 7,576,538
Supplemental rent from operations			
Other operating income			
Total Operating Revenues	<u>5,488,808</u>	<u>2,205,228</u>	<u>7,576,538</u>
<u>Operating expenses:</u>			
Salaries and benefits	978,980		1,611,347
Utilities and taxes	20,232		792,492
Operations and maintenance	3,280,754		2,774,901
Depreciation	1,278,304	89,705	699,767
Amortization of sewer capacity rights	944,917		
Administrative charges	234,063	4,192	461,711
Total Operating expenses	<u>6,737,250</u>	<u>93,897</u>	<u>6,340,218</u>
Operating Income	(1,248,442)	2,111,331	1,236,320
Nonoperating revenues (expense):			
Investment earnings	304,848	129,132	165,923
Interest (expense)	(690,641)	(295,324)	(356,508)
Total nonoperating revenue (expense)	<u>(385,793)</u>	<u>(166,192)</u>	<u>(190,585)</u>
Income (loss) before operating transfers	(1,634,235)	1,945,139	1,045,735
Capital Contributions	1,049,348		1,309,142
Transfers In	500,000		1,045,785
Transfers Out	<u>(923,285)</u>		<u>(1,848,289)</u>
Change in net assets	<u>(1,008,172)</u>	<u>1,945,139</u>	<u>1,552,373</u>
Total Net Assets-Beginning	29,352,444	7,772,110	31,434,462
Prior Year Reporting Error (Note 15)	139,430		
Prior Period Adjustments (Note 15)			(86,888)
Adjusted Net Assets-Beginning	<u>29,491,874</u>	<u>7,772,110</u>	<u>31,347,574</u>
Total Net Assets-Ending	<u>\$ 28,483,702</u>	<u>\$ 9,717,249</u>	<u>\$ 32,899,947</u>

See accompanying notes to financial statements

City of Morgan Hill
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended June 30, 2004

	Business-Type Activities Enterprise Funds		Governmental Activities Internal Service Funds
	Water Mitigation	Totals	
<u>Operating Revenues:</u>			
Charges for current services	\$ 443,836	\$ 15,714,410	\$ 3,813,520
Supplemental rent from operations			17,950
Other operating income			
Total Operating Revenues	443,836	15,714,410	3,831,470
<u>Operating expenses:</u>			
Salaries and benefits		2,590,327	1,194,920
Utilities and taxes		812,724	1,208,384
Operations and maintenance	746	6,056,401	706,733
Depreciation	124,126	2,191,902	308,992
Amortization of sewer capacity rights		944,917	
Administrative charges	253	700,219	151,459
Total Operating expenses	125,125	13,296,490	3,570,488
Operating Income	318,711	2,417,920	260,982
Nonoperating revenues (expense):			
Investment earnings	170	600,073	62,550
Interest (expense)		(1,342,473)	
Total nonoperating revenue (expense)	170	(742,400)	62,550
Income (loss) before operating transfers	318,881	1,675,520	323,532
Capital Contributions		2,358,490	
Transfers In	560,789	2,106,574	35,520
Transfers Out		(2,771,574)	(54,000)
Change in net assets	879,670	3,369,010	305,052
Total Net Assets-Beginning	3,271,279	71,830,295	5,185,677
Prior Year Reporting Error (Note 15)		139,430	
Prior Period Adjustments (Note 15)		(86,888)	
Adjusted Net Assets-Beginning	3,271,279	71,882,837	5,185,677
Total Net Assets-Ending	\$ 4,150,949	\$ 75,251,847	\$ 5,490,729

See accompanying notes to financial statements

**City of Morgan Hill
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2004**

	Business-Type Activities Enterprise Funds		
	Sewer	Sewer Mitigation	Water
Cash Flows from Operating activities			
Receipts from customers and users	\$ 5,542,189	\$ 2,192,492	\$ 7,385,094
Receipts from interfund services			
Payments for supplies and services	(3,271,169)	322,977	(3,402,162)
Payments to employees	(967,620)		(1,608,753)
Payments for interfund services	(460,525)	(4,192)	(440,007)
Net cash provided by operating activities	<u>842,875</u>	<u>2,511,277</u>	<u>1,934,172</u>
Cash Flows From Noncapital Financing Activities			
Transfers (to)/from other funds	(423,285)		(802,504)
Advances from other funds			
Net cash provided (used) by noncapital and financing activities	<u>(423,285)</u>		<u>(802,504)</u>
Cash Flows From Capital and Related Financing Activities			
Capital contributions	1,049,348		1,309,142
Purchase of capital assets			
Acquisition and construction of capital assets	(1,890,927)	(919,758)	(2,445,766)
Principal paid on debt	(975,381)		(175,807)
Interest paid on debt	(690,641)	(295,324)	(356,508)
Net cash provided by capital and related financing activities	<u>(2,507,601)</u>	<u>(1,215,082)</u>	<u>(1,668,939)</u>
Cash Flows From Investing Activities			
Interest earnings	328,471	132,741	181,929
Net cash provided by investing activities	<u>328,471</u>	<u>132,741</u>	<u>181,929</u>
Net increase in cash and cash equivalents	(1,759,540)	1,428,936	(355,342)
Cash and cash equivalents, July 1, 2003	<u>13,466,972</u>	<u>4,903,606</u>	<u>7,055,574</u>
Cash and Cash equivalents, June 30, 2004	\$ 11,707,432	\$ 6,332,542	\$ 6,700,232
Reconciliation of operating income to net cash provided (used) by operating activities			
Operating income	\$ (1,248,442)	\$ 2,111,331	\$ 1,236,320
Adjustments to reconcile:			
Depreciation expense	1,278,304	89,705	699,767
Amortization of sewer capacity rights	944,917		
(Increase) decrease in accounts receivable	53,381	(1,008)	82,319
(Increase) decrease in notes receivables		(11,728)	
(Increase) decrease in due from other funds			(273,763)
Increase (decrease) in accounts payable	(196,645)	322,977	186,935
Increase (decrease) in compensated absences	11,360		2,594
Increase (decrease) in due to other funds			
Total adjustments	<u>2,091,317</u>	<u>399,946</u>	<u>697,852</u>
Net cash provided by operating activities	\$ 842,875	\$ 2,511,277	\$ 1,934,172

See accompanying notes to financial statements

**City of Morgan Hill
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2004**

	Business-Type Activities Enterprise Funds		Governmental Activities Internal Service Funds
	Water Mitigation	Total	
Cash Flows from Operating activities			
Receipts from customers and users	\$ 443,836	\$ 15,563,611	3,799,283
Receipts from interfund services			
Payments for supplies and services	132,305	(6,218,049)	(1,612,582)
Payments to employees		(2,576,373)	(1,175,830)
Payments for interfund services	(999)	(905,723)	(151,459)
Net cash provided by operating activities	<u>575,142</u>	<u>5,863,466</u>	<u>859,412</u>
Cash Flows From Noncapital Financing Activities			
Transfers (to)/from other funds	560,789	(665,000)	(18,480)
Advances from other funds			
Net cash provided (used) by noncapital and financing activities	<u>560,789</u>	<u>(665,000)</u>	<u>(18,480)</u>
Cash Flows From Capital and Related Financing Activities			
Capital contributions		2,358,490	
Purchase of capital assets			(258,825)
Acquisition and construction of capital assets	(1,254,604)	(6,511,055)	
Principal paid on debt		(1,151,188)	
Interest paid on debt		(1,342,473)	
Net cash provided by capital and related financing activities	<u>(1,254,604)</u>	<u>(6,646,226)</u>	<u>(258,825)</u>
Cash Flows From Investing Activities			
Interest earnings	894	644,035	68,472
Net cash provided by investing activities	<u>894</u>	<u>644,035</u>	<u>68,472</u>
Net increase in cash and cash equivalents	(117,779)	(803,725)	650,579
Cash and cash equivalents, July 1, 2003	<u>124,965</u>	<u>25,551,117</u>	<u>5,625,796</u>
Cash and Cash equivalents, June 30, 2004	\$ 7,186	\$ 24,747,392	\$ 6,276,375
Reconciliation of operating income to net cash provided (used) by operating activities			
Operating income	\$ 318,711	\$ 2,417,920	260,982
Adjustments to reconcile:			
Depreciation expense	124,126	2,191,902	308,992
Amortization of sewer capacity rights		944,917	(32,187)
(Increase) decrease in accounts receivable		134,692	
(Increase) decrease in notes receivables		(11,728)	
(Increase) decrease in due from other funds		(273,763)	
Increase (decrease) in accounts payable	(141,458)	171,809	302,535
Increase (decrease) in compensated absences		13,954	19,090
Increase (decrease) in due to other funds	273,763	273,763	
Total adjustments	<u>256,431</u>	<u>3,445,546</u>	<u>598,430</u>
Net cash provided by operating activities	\$ 575,142	\$ 5,863,466	\$ 859,412

See accompanying notes to financial statements

City of Morgan Hill
Statement of Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2004

	<u>Agency Fund</u>
<u>Assets:</u>	
Restricted pooled cash and investments	\$ 2,876,879
Cash with fiscal agents	2,025,646
Accounts receivable	22,960
Total Assets	<u>\$ 4,925,485</u>
 <u>Liabilities</u>	
Accounts payable	\$ 109,730
Customer and other deposits	4,815,755
Total liabilities	<u>\$ 4,925,485</u>

See accompanying notes to financial statements

1. DEFINITION OF THE REPORTING ENTITY

The City of Morgan Hill, California, (the City) was incorporated in November 1906 as a general law city and operates under a Council-Manager form of government.

As required by Statement No. 14 of the Governmental Accounting Standards Board (GASB), as amended by GASB No. 39, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government. Each blended and discretely presented component unit has a June 30 year end.

Blended Component Units. The Morgan Hill Wastewater Facilities Financing Corporation, the Morgan Hill Financing Authority and the Redevelopment Agency of the City of Morgan Hill (the Agency) are governed by boards which are substantially the same as the City's governing body and serve the City exclusively. The Morgan Hill Wastewater Facilities Financing Corporation was established in 1988 to facilitate the issuance of debt for capital improvements. The Morgan Hill Financing Authority was established under government code section 6500, et seq., in November 2003 to act as a conduit in issuing assessment district refinancing bonds. The parties to this agreement are the City and The Agency. The Redevelopment Agency operates under California Redevelopment Law and provides business and housing activities. Both component units have been blended into the City's basic financial statements. The activities of the Financing Corporation are reported as an Enterprise Fund and the Redevelopment Agency's activities are reported as a Capital Project Fund on the City's basic financial statements.

Discretely Presented Component Units. The Morgan Hill Corporation Yard Commission functions for the benefit of the City and the Morgan Hill Unified School District. The Commission is equally comprised of members from each governing body and one member at large. The Commission was formed in 1975 to facilitate the operation of a joint tenancy between the school district and the City. The activities of the Commission are included in the City's basic financial statements as a discretely presented component unit because the board is not substantially the same as the primary governments', nor does it operate exclusively, nor almost exclusively, for the benefit of the City.

The Financing Corporation and the Financing Authority do not issue separate financial statements.

Complete financial statements for the Agency and the Commission may be obtained from the City at the following address:

City of Morgan Hill
Attention: Finance Department
17555 Peak Avenue
Morgan Hill, CA 95037

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

(a) Measurement focus and basis of accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City reports the following fund types:

Governmental Fund Types

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds and agency funds) are accounted for through governmental funds. The measurement focus is based upon determination of changes in financial position, rather than upon net income.

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those accounted for in another fund.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments and major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Project Funds

Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Special Revenue Fund and Proprietary Fund Types).

Proprietary Fund Types

Proprietary funds are used to account for the City's ongoing activities which are similar to those often found in the private sector. The measurement focus is based upon determination of net income. Proprietary Fund Types include Enterprise Funds and Internal Service Funds:

Enterprise Funds

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Internal Service Funds

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency of the City to other departments or agencies on a cost-reimbursement basis.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary Fund Types

Agency Funds

Agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Assets equal liabilities and the measurement of operations is not a focus.

(b) Major and Non-major Funds

The City reports major funds on the government-wide financial statements separately from other funds. Major funds can be defined as any fund the City believes to be of particular importance to financial statement users. At a minimum, the general fund and any fund that meets both of the following criteria *must* be reported as a major fund:

Ten percent criterion. An individual governmental fund reports at least 10 percent of any of the following: a) total governmental fund assets, b) total governmental fund liabilities, c) total governmental fund revenues, or d) total governmental fund expenditures.

Five percent criterion. An individual governmental fund reports at least 5 percent of the total for both governmental and enterprise fund of any one of the items for which it met the 10 percent criterion.

Funds that do not meet the above criteria are considered non-major funds and data for these funds is reported in the aggregate under one column, *other governmental funds*, on the government-wide financial statements.

Proprietary funds also report major and non-major funds in the same manor as governmental. US GAAP (Generally Accepted Accounting Principles) also indicate that internal service funds are never reported as major funds. All non-major proprietary fund data are aggregated and reported under one column, *other enterprise funds*, on the government-wide financial statements. The City reports all enterprise funds as major funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Budgetary Information

State statutes require a budget be approved before any expenditures are made. Budgets are adopted for all Governmental Fund Types. Budgetary comparisons are reflected in the City's financial report for all governmental funds.

From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations of the various governmental funds. The City Council may amend the budget during the fiscal year. The City Manager is authorized to transfer appropriations within an activity budget to facilitate the functions of that activity in accordance with the directions, goals and policies of the City Council. Activities are defined as departments, such as Finance, Parks or Police. Council approval is required for additional appropriations or transfers between departments (activities). Unencumbered appropriations lapse at the end of each fiscal year.

Budget proposals are prepared by each of the City's department directors. The budget proposals and justifications are submitted to the Finance Department, which compiles the information and prepares the City's preliminary budget. The City Council reviews the preliminary budget at a meeting open to the public. Changes approved at this meeting are incorporated into the final budget. The final budget is then submitted to the City Council for adoption at a public hearing.

Any revisions that increase the total budgeted expenditures of any activity (department) must be approved by the City Council. Expenditures and encumbrances may not legally exceed budgeted appropriations at the department level. Budgeted amounts presented for the general fund and those funds which have legally adopted budgets, include the original adopted budget, the final amended budget and comparison to actual expenditures.

(d) Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed in all Governmental Fund Types. Encumbrances outstanding at year-end are reappropriated in the next year and reported as reservations of fund balances since they do not constitute expenditures or liabilities.

(e) Cash and Investments

Cash and investments of individual funds are combined for investment purposes in a commingled pool except for the investments held by fiscal agents, which are maintained and invested separately.

The City's cash and cash equivalents are considered to be cash on hand or demand deposits. Cash equivalents are stated at fair value. The fair value of investments is determined annually and is based on current market prices. Investment income earned on the commingled pool is allocated quarterly among the funds based upon the average daily balance of cash maintained by each fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Gains or losses on securities included in the investment portfolio are recognized at the earlier of the end of the fiscal year or when the related security is sold. Investments in securities purchased with the intent to trade for a profit are prohibited by City policy.

Resolutions authorizing certain bonds require that certain amounts be held by a fiscal agent to secure principal and interest payments. Such amounts are classified as restricted cash and investments held by fiscal agents. Each fund type's portion of this pool is displayed on the combined balance sheet as "pooled cash and investments" and "restricted pooled cash and investments" held by the City.

(f) Capital Assets

Capital assets, which include property, plant and equipment and infrastructure assets (streets, curbs and gutters, water and sewer systems, etc.) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of \$3,000 or more and estimated useful life of at least three years. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at estimated fair market value, or engineering estimates in the case of infrastructure, at the date of donation.

The City has included the current year additions to infrastructure assets but has chosen the option of postponing reporting prior year's infrastructure in order to inventory, evaluate and value to the best of our abilities those assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value.

Property, plant and equipment of the primary government and its component units are depreciated using the straight-line method over the following estimated useful lives:

Buildings and land improvements	30-50 years
Infrastructure	20-30 years
Machinery, equipment and vehicles	5-20 years

(g) Sewer Capacity Rights

Capacity rights are capitalized in the Sewer Enterprise Fund. Such rights are being amortized over 30 years, the estimated life of the sewer treatment facility. Sewer capacity rights will be fully amortized in 2023.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Special Assessment Districts for which the City is Obligated in Some Manner

Recognition of revenue related to noncurrent receivables of the special assessment districts is deferred until such receivables become current. There is no reserve for delinquent receivables since liens exist against the related properties and hence the City's management believes full value will ultimately be received by the City. Surplus fund balances remaining at the completion of a special assessment district project are disposed of in accordance with City Council resolutions and with the applicable assessment bond laws of the State of California.

(i) Compensated absences and Post-Employment Benefits

It is the City's policy to permit employees to accumulate earned but unused vacation, sick and compensatory time off. There is no liability for unused sick leave as the City has no obligation to pay for any accumulated balance when employees separate from employment. The City does recognize a current liability in proprietary funds for 25% of the current year unused sick leave accrual due to bargaining group agreements to pay this amount if unused during the year. All vacation and compensatory time are accrued in the government-wide and proprietary fund financial statements.

Upon retirement or leave from the City, any unused sick leave may be used in the determination of length of service in relation to pension benefits received from the California Public Employees' Retirement System (CalPERS) (see Note 9).

The City participates in the CalPERS Health Program. This program provides medical insurance coverage for both current employees and retirees. Participating employers must contribute toward the cost of the health premiums for both employee groups. The City has chosen to contribute under the unequal contribution option. The unequal contribution option requires an initial City contribution for each retiree of \$1 per month, with annual increases of at least 5 percent of the City's monthly contribution of \$32.20 toward the premium for each active employee, until such time as the contribution for employees and retirees are equal.

(j) Restricted Assets

Assets which are restricted for specified uses by bond debt requirements, grant provisions, or other requirements are classified as restricted assets held by the City as fiscal agent.

(k) Interfund Transactions

Interfund transactions are recorded as transfers on the fund financial statements which result in interfund receivables and payables. Balances reported in the fund financial statements are eliminated for the government-wide financial statements. There were no interfund receivables or payables at June 30, 2004.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interfund transfers reported on the fund financial statements are summarized as follows:

Transfer Out	Transfer In						Total
	General Fund	Nonmajor Governmental	Water	Sewer	RDA	Internal Service	
General Fund		76,668				35,520	112,188
Nonmajor governmental funds	742,058	2,564,764	1,606,574	500,000	1,634,282		7,047,678
Water	17,500						17,500
Sewer	17,500						17,500
Internal Service		54,000					54,000
Total Transfer out	<u>777,058</u>	<u>2,695,432</u>	<u>1,606,574</u>	<u>500,000</u>	<u>1,634,282</u>	<u>35,520</u>	<u>7,248,866</u>
Transfer in to close debt service funds:							
Residual equity transfers							107,157
Total transfers in							<u>7,356,023</u>

(I) Property Tax and Special Assessment Levy, Collection, and Maximum Rates

The State of California's (the State) Constitution Article XIII A (commonly referred to as Proposition 13) provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by the voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be increased by no more than 2% per year unless the property is further improved, sold or transferred. The State legislature has determined the method of distribution of receipts from the 1% tax levy among the counties, cities, school districts, and other districts.

Santa Clara County assesses properties and bills, collects, and distributes property taxes and special assessments as follows:

Date Category	Secured	Unsecured
Valuation Dates	January 1	January 1
Lien/Levy Dates	July 1	March 1
Due Dates	50% on November 1 50% on February 1	Upon receipt of billing
Delinquent as of	December 10 (For November) April 10 (for February)	August 31

The term "unsecured" refers to taxes on personal property other than real estate, land, and buildings. Taxes on real estate, land, and buildings are secured by liens on the property being taxed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Unbilled Service Receivables

The city bills for water and sewer services on a monthly basis. All amounts not billed at year end are accrued and reflected as accounts receivable in the appropriate funds.

(n) Income Taxes

The City and its related entities fall under the purview of Internal Revenue Code, Section 115 and corresponding California Revenue and Taxation Code provisions. As such, they are not subject to federal or state income taxes.

(o) Investment in Properties Held for Resale

The Agency purchases housing units and other properties for redevelopment within the Agency's project area. The costs of agency properties held for resale are capitalized in the Redevelopment Agency Capital Project Fund as "investment in properties held for resale," at the lower of acquisition cost or net realizable value.

(p) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(q) New/Closed Funds

New Funds

The Community Center Impact Fund was created during the fiscal year ending June 30, 2004. This fund was set up to collect revenues derived from a fee charged to developers to cover the costs to construct new community centers in the City.

The Environment Remediation fund was also created during the fiscal year ending June 30, 2004. The purpose of the fund is to account for activity related to any necessary environmental remediation activity for which the City is responsible

Closed Funds

The following funds were closed during the year ending June 30, 2004. Any balances were transferred as a residual equity transfer into the fund now used for accounting for these purposes:

- Museum Fund
- Off Street Parking
- Encino Hills Assessment District
- Morgan Hill Bus Park Assessment District
- Sutter Bus Park Assessment District

3. BUDGETARY INFORMATION

Budgetary Results Reconciled to Generally Accepted Accounting Principles

The budgetary process is based upon accounting for certain transactions on a basis other than generally accepted accounting principles (US GAAP basis). The results of operations for the general fund are presented in the accompanying budget and actual comparison statement in accordance with the budgetary process (budgetary basis) to provide a meaningful comparison with the budget.

The major difference between the budgetary basis actual and US GAAP basis is that year-end encumbrances are recognized as the equivalent of expenditures on the budgetary basis, while encumbered amounts are not recognized as expenditures on the US GAAP basis until recorded as actual expenditures.

A summary of the adjustments necessary to reconcile the results of operations on a budgetary basis to the results of operations on a US GAAP basis are listed below for governmental funds:

	General Fund	Redevelopment Agency	Other Governmental Funds
Expenditures, US GAAP basis	\$16,014,522	39,808,339	11,828,503
Encumbrances	131,211	2,935,266	1,841,210
Expenditures, budgetary basis	\$16,145,733	42,743,605	13,669,713

Excess of Expenditures Over Appropriations

For the year ended June 30, 2004, expenditures exceeded appropriations at the legal level of control in the Finance Department by \$2,266; the Lighting and Landscape Fund by \$2,430; Police Impact (Mitigation) Fund by \$8,934; Joleen Way Assessment District by \$600 and Mobile Home Rent Stabilization Fund by \$2,058. These over expenditures were funded by greater than anticipated revenues except for the Finance Department and the Mobile Home Rent Stabilization Fund which were funded by available fund balance.

4. CASH AND INVESTMENTS

Description of amounts reported on City's Financial Statements

The City maintains a cash and investment pool in which all funds and component units participate. Certain bonds require that certain amounts be held by a fiscal agent and/or the City to secure principal and interest payments. Such amounts are classified as restricted cash and investments or as cash with fiscal agent. Each fund type's portion of this pool is displayed on the government-wide financial statements as follows:

	Governmental	Business Type	Fiduciary Funds
Pooled Cash & Investments	46,055,657	16,123,955	--
Pooled Restricted Cash & Investments	13,482,136	6,339,728	2,876,879
Cash with Fiscal Agents	--	2,283,709	2,025,646
Total Cash & Investments	59,537,793	24,747,392	4,902,525

4. CASH AND INVESTMENTS, (continued)

The Corporation Yard Commission has cash and investments totaling \$46,685. There is no restricted cash or cash with fiscal agents.

The investments made by the City Treasurer are limited to those allowable under State statutes and the City's Investment Policy, approved by Council on September 15, 1999 and re-approved on June 2, 2004, which is more conservative than that allowed by State statute. Under provisions of this policy, the City is authorized to invest in the following types of investments:

Certificates of Deposits	Government Agency Securities
Treasury Bills and Notes	Passbook Savings Accounts
Dreyfuss Treasury Cash Mgmt	State of California Local Agency Investment Fund (LAIF)

A small portion of the City's funds held by LAIF are invested in structured notes and asset-backed securities. A description of these types of investments is:

- (a) Structured Notes - debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or state maturity) depend upon one or more indices and/or have embedded forwards or options.
- (b) Asset-backed Securities - generally mortgage-backed securities which entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

Cash Deposits

All pooled certificates of deposit and bank balances are entirely insured or collateralized. The California Government Code requires California banks and savings and loan associations to secure an agency's deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure local agency deposits by pledging first trust deed mortgage notes having a value of 150% of a local agency's deposits. The City may waive collateral requirements for deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

At June 30, 2004, the carrying amount of the City's deposits was \$2,579,904 and the bank balances were \$2,510,391. The difference between the carrying amount and the bank balances is due to deposits in transit and outstanding checks in the general operating account.

The City's bank balances at year-end are categorized below to give an indication of the level of credit risk assumed by the City.

Category 1 – Insured or collateralized with securities held by the entity or by its agent in the City's name

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

4. CASH AND INVESTMENTS, (continued)

Category 3 – Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City’s name.

As of June 30, 2004, the City’s and Commission’s bank balances are categorized as follows:

Category 1	\$ 100,000
Category 2	2,410,391
Total Cash Deposit	\$ 2,510,391

Investments

The City’s investments at year-end are categorized below, according to the guidelines of GASB Statement No. 3 to give an indication of the level of custodial credit risk assumed by the City as of June 30, 2004.

Category 1 - Insured or registered, or securities held by the entity or its agent in the entity’s name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty’s trust department or agent in the entity’s name

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the entity’s name.

Uncategorized - Certain investments are not subject to categorization under GASB Statement No. 3 and are identified as “Not Required to be Categorized.”

Investments in LAIF and money market funds are not categorized as they are invested in investment pools and are thus exempt from categorization requirements. Investments in LAIF are highly liquid, and deposits may usually be converted to cash within twenty-four hours without loss of interest.

The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the City’s pool share in LAIF which may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the City’s position in the pool.

At June 30, 2004, the City’s pooled investments, including both restricted and unrestricted balances, classified by risk category consisted of the following:

	Category 3	<u>Not Required to be Categorized</u>	<u>Fair Value</u>
Money Market		\$62,394	\$62,394
Certificate of Deposit	\$2,000,000		2,000,000
Federal Securities	49,245,448		48,430,893
Local Agency Investment Fund		31,903,399	31,851,849
Total Pooled Investments	\$51,245,448	\$31,965,793	\$82,345,136

4. CASH AND INVESTMENTS, (continued)

The Corporation Yard Commission only had investments in the Local Agency Investment Fund and is therefore not required to be categorized. The balance of \$52,203 had a fair market of \$52,119 at June 30, 2004.

The maturities of investments at June 30, 2004, are as follows:

<u>Maturity</u>	<u>Fair Value</u>
Current to one year	\$35,911,743
One to two years	7,941,860
Two to three years	3,917,500
Three to five years	34,574,033
Total Investments	\$82,345,136

The Corporation Yard Commission's balance in LAIF has a fair market value of \$52,119 and a current maturity classification.

At June 30, 2004, the City's cash with fiscal agents, including fiduciary funds, classified by risk category consisted of the following:

	<u>Category 3</u>	<u>Not Required to be Categorized</u>	<u>Fair Value</u>
Bank of New York:			
MBIA Custody Agreement	\$1,849,400		\$1,849,400
Cash Management Account		\$230,373	230,373
US Bank:			
First American Treasury Obligation	2,229,582		2,229,582
Total Cash with Fiscal Agents	\$4,078,982	\$230,373	\$4,309,355

Fair Value of Cash and Investments

In accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Pools, investments were stated at fair value using the aggregate method as follows:

Fair Value of cash and investments at June 30, 2004	\$82,345,136
Less: Book Value of cash and investments at June 30, 2004	(83,211,242)
Change in Fair Value Investments	(\$539,104)

External Investment Pool

The City invests in LAIF, a State of California external investment pool. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available.

The City valued its investments in LAIF as of June 30, 2004, by multiplying its account balance with LAIF times a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants total aggregate amortized cost by total aggregate fair value.

4. CASH AND INVESTMENTS, (continued)

Accordingly, as of June 30, 2004, the City's investments in LAIF at fair value amounted to \$31,851,849 using a LAIF fair value factor of 0.998384.

5. CAPITAL ASSETS

The following is a summary of governmental activities capital assets at June 30, 2004:

Capital Asset Category	Carrying Value
Land	\$28,304,460
Building and Improvements	41,461,491
Machinery, Equipment & Vehicles	337,161
Infrastructure	10,281,978
Construction in progress	6,698,509
Total General Capital Assets	\$87,083,599

Changes in governmental activities capital assets were as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital Assets, Not Being Depreciated:				
Land	\$ 23,560,224	\$ 4,758,828	\$ (14,592)	\$ 28,304,460
Construction in progress	5,082,477	5,235,890	(3,619,858)	6,698,509
Total Capital Assets, Not Being Depreciated	28,642,701	9,994,718	(3,634,450)	35,002,969
Capital Assets, Being Depreciated:				
Infrastructure	6,729,030	8,113,843	(4,300,065)	10,542,808
Buildings and other improvements	30,099,801	15,560,825	(345,253)	45,315,373
Machinery/Equipment/Vehicles	2,443,028	8,464	(116,779)	2,334,713
Total Capital Assets, Being Depreciated	39,271,859	23,683,132	(4,762,097)	58,192,894
Less Accumulated Depreciation For:				
Infrastructure	(136,067)	(135,329)	10,566	(260,830)
Buildings and other improvements	(7,661,185)	(1,250,874)	5,058,177	(3,853,882)
Machinery/Equipment/Vehicles	(1,820,081)	(71,409)	(106,062)	(1,997,552)
Total Accumulated Depreciation	(9,617,333)	(1,457,612)	4,962,681	(6,112,264)
Total Capital Assets Being Depreciated, Net	29,654,526	22,225,520	200,584	52,080,630
Governmental Activities Capital Assets, Net	\$ 58,297,227	\$ 32,220,238	\$ (3,433,866)	\$ 87,083,599

5. CAPITAL ASSETS, (continued)

Depreciation expense was charged to governmental functions as follows:

Governmental Function	Expense
Administration	\$77,632
Community Development	32,814
Redevelopment Agency	387,392
Public Works	248,995
Public Safety	102,585
Parks & Recreation	608,194
Total General Capital Assets	\$1,457,612

As of June 30, 2004, Capital assets of business type activities on the government-wide financial statements consisted of:

Capital Asset Category	Business-Type Funds
Land	\$1,825,332
Building and other improvements	33,730,124
Machinery, Equipment & Vehicles	8,463,031
Infrastructure	70,079,913
Sewer Capacity rights	28,347,522
Construction in Progress	2,113,922
Total	\$144,559,844
Less Accumulated depreciation	(67,313,660)
Capital Assets, Net	\$77,246,184

A reconciliation of capital assets for business type activities are listed below:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital Assets, Not Being Depreciated:				
Land	\$ 1,825,332	\$	\$	\$ 1,825,332
Construction in progress		2,920,442	(806,520)	2,113,922
Total Capital Assets, Not Being Depreciated	1,825,332	2,920,442	(806,520)	3,939,254
Capital Assets, Being Depreciated:				
Infrastructure	65,484,251	4,595,662		70,079,913
Buildings and other improvements	36,621,126	423,558	(3,314,560)	33,730,124
Machinery/Equipment/Vehicles	5,857,445	2,605,586		8,463,031
Sewer Capacity rights	28,347,522			28,347,522
Total Capital Assets, Being Depreciated	136,310,344	7,624,806	(3,314,560)	140,620,590
Less Accumulated Depreciation For:				
Infrastructure	(43,805,707)	(881,789)		(44,687,496)
Buildings and other improvements	(5,407,149)	(1,067,937)		(6,475,086)
Machinery/Equipment/Vehicles	(7,017,405)	(242,176)		(7,259,581)
Sewer Capacity rights	(7,946,580)	(944,917)		(8,891,497)
Total Accumulated Depreciation	(64,176,841)	(3,136,819)	-	(67,313,660)
Total Capital Assets Being Depreciated, Net	72,133,503	4,487,987	(3,314,560)	73,306,930
Enterprise Funds, Net Assets 06/30/04	\$ 73,958,835	\$ 7,408,429	\$ (4,121,080)	\$ 77,246,184

5. CAPITAL ASSETS, (continued)

Depreciation and amortization expense was charged to business-type funds as follows:

Fund	Amount
Sewer	\$2,312,926
Water	823,893
Total Business-Type Activities	\$3,136,819

6. LOANS RECEIVABLE

The City's and Agency's loans receivable as of June 30, 2004 total \$33,366,036, consisting of the following types:

Description	Amount
CDBG Loans	\$569,988
Housing Rehabilitation Loans	1,165,604
Jasmine Way	463,198
Sunrise Meadows	3,513,083
San Pedro Gardens	1,424,339
Hospira	874,132
Morgan Hill Ranch Family Housing	3,293,472
Village Avante Apartments	1,711,783
Village Avante Apartments 2	723,317
Villa Ciolino	2,786,727
Church Street	3,608,504
Murphy Ranch	5,806,077
Royal Court Apartments	3,381,801
Other Loans	4,044,011
Total	\$33,366,036

(a) CDBG Loans/Housing Rehabilitation Loans

The City administers two home improvement revolving loan funds using Federal Community Development Block Grant funds (CDBG) and Redevelopment Agency Housing monies. The program provides below market rate loans, secured by deeds of trust, to eligible participants for housing rehabilitation. Although payments for most loans are amortized over an established payment schedule, some loans allow for deferred payment of accrued interest and principal until the homeowner's property is sold or transferred, primarily for seniors and very low income families. Repayments received from the outstanding loans are used to make additional housing rehabilitation loans. As of June 30, 2004, the City had \$569,988 of outstanding CDBG loans and the Agency had \$1,162,474 in outstanding home improvement loans.

(b) Jasmine Way

The Agency also issued "sweat equity" loans in 1989, secured by deeds of trust, to 15 low and moderate income families to purchase homes. Interest accrues at the rate of 7% annually for 10 years after the execution of the loan. The notes with accrued interest are due and payable upon the sale or transfer of the homeowner's property, unless the new purchaser or occupant agrees to a new note equal to the amount of principal and accrued interest due at the time of sale. After the

6. LOANS RECEIVABLE, (continued)

borrower has occupied the residence for 10 years, an amount equal to 10% of the principal and interest due shall be forgiven each year until no amount remains due and the loan is forgiven. As of June 30, 2004, the City had \$463,198 of these loans outstanding in its Redevelopment Agency Capital Project Fund.

(c) Sunrise Meadows

The Sunrise Meadows project consisted of 24 self-help homes reserved for low income households, and 36 contractor-built units reserved for those at median income. The Agency purchased the project (including land and all entitlements) for \$1,670,000. The entire project was then sold to South County Housing for this same amount. The Agency attached a third trust deed on each of the 24 self-help units for loan amounts varying from \$50,000 to \$100,000 each. The notes with accrued interest are due and payable upon the sale or transfer of the homeowner's property, unless the new purchaser or occupant agrees to a new note equal to the amount of principal and accrued interest due at the time of sale. After the borrower has occupied the residence for 20 years, an amount equal to 10% of the principal and interest due shall be forgiven each year until no amount remains due and the loan is forgiven. As of June 30, 2004, the Agency had \$3,513,083 of loans outstanding in its Capital Project Fund.

(d) San Pedro Gardens

The San Pedro Gardens project consisted of 20 rental apartments and 16 self-help owner built units. The Agency issued a loan for \$825,000 in June 1991, secured by a third trust deed, with the following repayment terms:

Of the total loan, \$400,000 has been split into 16 individual loans, secured by deeds of trust on the individual properties. The loan agreements allow the Agency to repurchase units during the first 4 years of ownership at a restricted sales price, and at market rates thereafter. If the borrower has occupied the unit for 20 years, 10% of the principal and interest will be forgiven each year and the loan will be totally canceled at year 30. These loans accrue interest at 10% compounded annually. As of June 30, 2004, the balance for these loans was \$979,063.

The remaining \$425,000 of the loan accrues simple interest at 1% per year. Interest payments only are due on May 1st of each year payable solely from the surplus funds in the borrower's ground lease rent fund. Portions not paid due to insufficient funds shall accrue interest and be due on May 1st of the following year until paid. All principal and interest remaining unpaid shall be due and payable on June 15, 2021. At June 30, 2004, the balance for this loan was \$445,276.

(e) Hospira

On September 20, 1995, the Agency approved an agreement with Hospira Systems (formerly Abbot Labs), which offered Hospira \$2.275 million in financial incentives, which included right-of-way purchase and traffic fee credits, to move their laboratories to the Morgan Hill Business Ranch within the City limits. In addition, the agency approved a loan, secured by a deed of trust, in the amount of \$610,000 to Hospira with a 5% interest rate. If certain conditions are met, according to the loan agreement, up to 80% of the accrued interest will be forgiven. At June 30, 2004, the loan has accrued interest of \$264,132 bringing the loan balance to \$874,132.

6. LOANS RECEIVABLE, (continued)

(f) Morgan Hill Ranch Family Housing

The Morgan Hill Ranch Family Housing Project (Project) consists of residential rental units and a day care center in the Project area. The Agency made a principal predevelopment loan of \$10,000 in fiscal year 1995/1996 and principal development loan of \$610,579 in fiscal year 1996/1997. The Agency provided an additional loan for land acquisition and construction costs in the amount of \$2,524,585 in fiscal year 1997/1998. Commencing on the date of the first disbursement of the loans, the loans accrue simple interest at 3% per annum. At June 30, 2004, the loans have accrued interest of \$148,308, bringing the loan balance to \$3,293,472. The Association began making payments on its loans on the first May 1 following the calendar year in which the Morgan Hill Ranch Family Housing units became occupied. All loans are secured by deeds of trust.

(g) Village Avante Apartments

On June 1, 1999, the Agency entered into an agreement with Don Avante Family Homes, Inc. to lend the lesser of \$1,540,000 or so much as shall be disbursed under the loan agreement for the acquisition and rehabilitation of the existing Village Avante 112-unit housing project located in the identified Agency Project Area. The loan accrues simple interest at a rate of 4% per annum on the unpaid balance with annual payments until April 1, 2039 and is secured by a deed of trust. The current unpaid balance at June 30, 2004 was \$1,711,783.

(h) Village Avante Apartments 2

On March 22, 2000, the Agency Board authorized a loan to Don Avante Associates II in the amount of \$640,000. This loan is to provide more attractive and durable landscaping, new steel-post privacy fencing at each patio and new black vinyl-coated chain link fencing along the west property line. The loan also included provisions for site and street lighting to create a safer environment at night. The note is a residual receipts note with a 40-year term. It accrues simple interest at a rate of 4% per annum and is secured by deed of trust. The balance at June 30, 2004 was \$723,317.

(i) Villa Ciolino

On November 23, 1999, the Morgan Hill Redevelopment Agency Board approved a loan of \$1.9 million to South County Housing Corporation to acquire a blighted trailer park and housing project. Under the terms of the loan, South County Housing will remove and replace 21 occupied but dilapidated housing units, rehabilitate 8 more, and add 13 additional apartments to create a new 42-unit rental housing complex. The loan is a residual receipt note in second position, at 4% compounded annually, with a term of 55-years, and is secured by a deed of trust. On December 15, 1999, the Redevelopment Agency Board modified the interest rate from compound to simple at the request of the Low Income Housing Tax Credit Limited Partner tax counsel.

On June 28, 2000, the loan was further modified by approving an increase of \$475,000 to cover increased costs of material and labor incurred because of an increased scope of off-site work and the pressures of a very busy construction market place. The balance at June 30, 2004 was \$2,786,727.

6. LOANS RECEIVABLE, (continued)

(j) Church Street Apartments

On August 31, 2000, the Redevelopment Agency Board entered into an agreement to loan \$1.35 million to South County Housing to purchase two parcels and develop an affordable housing project. On December 6, 2000, the Agency Board approved additional funding to the Church Street Apartments housing project in the amount of \$1.9 million for the acquisition of four vacant parcels. This housing project will combine up to 72 residential family apartments to lower income families including a minimum of 23 replacements units and approximately 10,000 square feet of commercial space. The apartment units will be located in 2 and 3 story buildings with up to 12 units located on the second floor of the commercial building. The loan is secured by a deed of trust. The balance of the Church loan at June 30, 2004 was \$3,608,504.

The California Housing Finance Agency (CHFA) will be reimbursing the Agency for part of this disbursement through its HELP loan program. The Agency Board approved the CHFA loan in the amount of up to \$1 million. This is an unsecured loan to the Agency for use as “holding” funds for housing projects in development.

(k) Murphy Ranch

On August 8, 2001 the Redevelopment Agency of the City entered into a loan agreement in the amount of \$3,300,000 with Murphy Ranch, L.P. The purpose was to fund the acquisition of property and the pre-development, infrastructure and related costs of the development of the first 62 units of a 100 unit affordable residential complex. The term of the loan is 55 years and bears simple interest at 4%. Payments are received annually. On May 7, 2002 the agreement was amended to increase the principal amount of the promissory note by \$1,990,000, increasing the total commitment to \$5,290,000. At June 30, 2004 there was a balance due to the Agency in the amount of \$5,806,077.

(l) Royal Court Apartments

On May 15, 2003, the Redevelopment Agency of the City entered into a loan agreement in the amount of \$3,750,000 with South County Housing. The purpose of this loan was to acquire certain parcels of real property, remove the existing housing and construct at least thirteen (13) for-sale townhomes that will remain affordable to moderate and low income households, construct at least thirty-five (35) apartments that will remain affordable to low and very-low income households and construct one manager’s unit. The term of the loan is for six (6) years, bears simple interest at 3%, and is secured by a deed of trust. The first disbursement was processed on July 2, 2003. At June 30, 2004, there was a balance due to the Agency in the amount of \$3,381,801.

6. LOANS RECEIVABLE, (continued)

(m) Other Loans

The City and Agency have issued loans for several other projects, all of which are secured by deeds of trust. Detailed information for these loans is as follows:

Project Name	Loan Balance Outstanding	Interest Rate	Maturity Date	Special Provisions of Loan
Morgan Hill Grange	\$703,748	7.0%	2026	Loan will be forgiven at maturity unless property is transferred
Bridge Counseling Center	99,050	3.0%	2020	Interest and principal due at maturity
Methodist Church	11,974	None	2005	Balance due if sold or leased
Sycamore Glen	326,000	4.6%	2028	Interest and principal due at maturity
South County Housing - (Skeels Hotel)	238,536	3.0%	2005	Interest and principal due at maturity
Police Housing	155,848	various	various	Interest and principal deferred 5 yrs must be a police officer of the City
Community Solutions	110,000	5.0%	2017	Deferred principal and interest
South County Housing	15,964	3.0%	2012	Interest and principal due at maturity
Woodland Hills	18,945	various	various	various
Specialized Loan	514,448	6.0%	2039	After 10 yrs-interest free
MH School Relocation	708,110	6.0%	2025	Interest and principal deferred 10 years
Employee Housing Asst.	437,986	5.6%	2030	None
Weston-Miles Grainary	443,091	3.0%	2018	Interest and principal due at maturity
Corona Loan	8,312	7.0%	2041	Balance due in event of default, transfer, or resale restriction agreement expires
Employee computer loans	21,880	None	Various	Payments made through payroll deductions
South County Housing	134,657	4.0%	2011	Interest and principal due at maturity
Weston-Miles	61,247	2.0-4.0%	2005-09	Development Improvements
Surinder	5,830	None	2005	None
Cava	8,332	None	2005	None
Café Ya Bon	20,053	None	2014	None
Total	\$ 4,044,011			

(n) Recognition of Deferred Revenue for Loans Receivable

The City has recognized a deferred revenue on the governmental balance sheet for interest earned but not received on loans receivable. Interest on loans receivable recorded as a deferred revenue may be uncollectible or forgiven in the future.

(o) Other Deferred Revenue

Deferred revenue has been recognized as revenue in accordance with GASB Statement 34 on the government wide statement of activities. Deferred interest earnings in the amount of \$3,739,867 were recognized on the statement of activities. Deferred revenue on the statement of net assets represents business license and recreation program receipts received in advance and have not yet been earned.

7. LONG TERM DEBT

Summary of Changes in Long-Term Debt

	Governmental Activity Debt				Business Type Activity Debt	
	Special Assessment	Redevelopment Agency	Comp. Absences	Totals	Enterprise Funds	Totals
Balances, June 30, 2003	\$1,310,000	\$6,892,014	\$736,822	\$8,938,836	\$27,983,508	\$36,922,344
Additions	—	930,000	243,505	1,173,505	104,282	1,277,787
Retirements	(115,000)	(5,800,000)	(209,700)	(6,124,700)	(1,381,134)	(7,505,834)
Balances, June 30, 2004	\$1,195,000	\$2,022,014	\$770,627	\$3,987,641	\$26,706,656	\$30,694,297

(a) Special Assessment District Debt for which the City is Obligated in Some Manner

Certain special assessment districts within the City have issued debt repayable out of special assessments levied on property in each respective district. The City is under no legal obligation to repay the special assessment debt. However, the City is required to make advances or to be the purchaser of last resort for property on which delinquent assessments are unpaid and it has therefore included this debt in its basic financial statements.

The following is a schedule of debt outstanding for these districts as of June 30, 2004:

			Principal Matures			
District/Debt Issue	Year Issued	Interest Rate	Annual Amount	Period	Due Within One Year	Total Outstanding June 30, 2004
Cochrane Business Park	1986	8.00-8.25%	95,000-210,000	2003-2012	\$100,000	\$1,075,000
Joleen Way	1992	10.00%	20,000-30,000	2003-2009	20,000	120,000
Total Special Assessment Bonds Outstanding					\$120,000	\$1,195,000

As of June 30, 2004, there was no delinquent assessments receivable for the above districts. Revenues collected were sufficient to make the required debt service payments, including interest, which amounted to \$225,339 for fiscal year 2003-04.

(b) Redevelopment Agency Long-Term Debt

On October 5, 2000, the Agency entered into a loan agreement with CHFA. This HELP loan is to be used as a revolving source of funds for the purpose of making loans to property owners or operators for acquisition and predevelopment expenses associated with the aggregation of parcels for multifamily rehabilitation and/or new construction developments. This loan is for the South County Housing Church Street project. During fiscal year 2003/2004 the agency borrowed an additional \$900,000 and deferred interest of \$30,000. The loan payment has been deferred for 10 years; therefore no payment is due within one year. The balance of this loan at June 30, 2004 is \$2,022,014.

7. LONG TERM DEBT, (continued)

(c) Compensated Absences

The timing of payments for accrued vested vacation, sick leave, and compensatory time benefits (compensated absences) is not certain and thus not included in the above schedule. This \$770,627 obligation will be payable with resources to be received in future periods. Compensated absences are paid by the fund in which the debt is incurred including the general fund, special revenue funds and capital project funds. It is estimated that \$211,849 will be paid within one year, depending on employee usage.

(d) Other Long-Term Debt (Business-type activities)

The following is a schedule of long term debt associated with business type activities:

Bond	Due Serially to	Interest Rates	Due Within One Year	Total Outstanding at June 30, 2004
Enterprise Funds:				
2003 Water Facilities Loan	2017	%	\$86,807	\$1,072,313
1999 Certificates of Participation	2021	6.500%	175,000	3,779,970
Sewer Capacity Rights (Note 8)	2023	4.5-5.75%	975,000	21,709,494
Compensated Absences	--	--	11,668	144,879
Total Long-Term Debt			\$1,248,475	\$26,706,656

2003 Water Facilities Loan

On July 1, 1993, the California Statewide Communities Development Authority (Development Authority) issued \$14,195,000 Senior Series 1993A Bonds and \$8,000,000 Subordinate Series 1993B Bonds. Proceeds from the bonds enabled the Development Authority to make loans to numerous California public entities (borrowers). The bonds are limited obligations of the Development Authority and are secured by a pledge of water revenues from the borrowers. The City borrowed \$1,902,645 from the Development Authority.

In December 2003, the Morgan Hill Financing Authority lent money to the City to refinance the 1993 loan. It was determined significant public benefits would accrue from such borrowing, consisting of savings in effective interest rates and financing costs. The City borrowed \$1,512,490 to prepay the 1993 loan and cover costs of borrowing. The new loan matures in 2017 and bears a 4.25 annual percentage rate.

The actual aggregate savings is as follows:

Debt Service, 1993 Water Facilities Loan	\$2,332,498
Debt Service, 2003 Water Facilities Loan	(2,003,238)
Debt Service reduction	\$329,260

The debt refunding resulted in an economic gain of approximately \$185,703 based on the calculated present value of the savings over the term of the loan.

7. LONG TERM DEBT, (continued)

Cash flow requirements to maturity for the prepaid loan and the prepayment loan at the date of the loan are as follows:

<u>Fiscal year ending June 30,</u>	<u>1993 Loan (prepaid)</u>	<u>2003 Loan</u>
2004	\$ 166,607	\$ 74,194
2005	166,607	148,388
2006	166,607	148,388
2007	166,607	148,388
2008	166,607	148,388
2009-2013	833,035	741,940
2014-2017	<u>666,428</u>	<u>593,552</u>
Total Debt Service to Maturity	\$2,332,498	\$2,003,238

1999 Certificates of Participation

On May 1, 1999, the City issued \$5,090,000 Refunding Certificates of Participation to provide funds to advance refund the outstanding \$4,550,000 principal amount of the 1991 Certificates. The balance outstanding for the 1999 issue at June 30, 2004 was \$3,779,970. A portion of the proceeds of the Certificates has been deposited in an escrow fund (the "1991 Certificates Escrow Fund") pursuant to an escrow agreement dated as of May 1, 1999, between the City and U. S. Bank Trust National Association, an escrow bank. Such amounts, together with monies transferred to the 1991 Certificates Escrow Fund from certain funds held by the trustee for the 1991 Certificates, have been invested in direct obligations of the United States of America which will mature in such amounts and at such times and bear interest at such rates as to provide amounts sufficient to pay each installment of interest and principal with respect to the 1991 Certificates through June 1, 2002 and to provide for the redemption on June 1, 2002 of the 1991 Certificates maturing on or after June 1, 2003 at the redemption of 102% of the principal of the 1991 Certificates maturing on or after June 1, 2003.

(e) Future Debt Service Payment Requirements

	Governmental Activities Debt		Business Type Activities	
Year Ending June 30	(A) Special Assessment	(B) Agency Debt	(C) Bonds Payable	Totals
2005	215,243		530,621	745,864
2006	214,682		533,620	748,302
2007	213,208		531,221	744,429
2008	210,867		528,430	739,297
2009	217,253		530,240	747,493
2010-2014	547,081	2,022,014	2,665,539	5,234,634
2015-2019			2,382,358	2,382,358
2020-2023			764,838	764,838
Subtotals	\$1,618,334	\$2,022,014	\$8,466,867	\$12,107,215
Less interest, discounts and deferred charges	(423,334)	—	(3,614,584)	(4,037,918)
Totals	\$1,195,000	\$2,022,014	\$4,852,284	\$8,069,298

7. LONG TERM DEBT (continued)

Debt service payments for the above obligations are made from the following sources:

- (A) Special tax assessments secured by the related real properties.
- (B) Incremental property taxes authorized for the Agency and loan repayments.
- (C) Operating revenues recorded in the Water and Sewer Enterprise Funds. Note: This debt total is for bonds payable and excludes compensated absences and sewer capacity rights. Sewer capacity rights are explained in detail in Note 8.

(f) Bonds for which the Agency has No Obligation - La Crosse Village Project

The Agency has outstanding as of June 30, 2004 approximately \$4,434,140 of tax exempt multifamily mortgage revenue bonds due through December 1, 2027. These bonds were issued to provide funds for secured mortgage loans to builders of a multifamily housing project, the La Crosse Village Project. The purpose of the program is to provide needed rental housing for low to moderate income households. The Agency is required to set aside 20% of all units built in this project for low income households. The bonds are payable solely from payments made on the related secured mortgage loans. The unpaid balance is insured by mortgage guaranty insurance of the Federal Housing Authority (FHA).

In the opinion of the Agency officials, these bonds are not payable from any revenues or assets of the Agency or the City. Neither the faith and credit nor the taxing power of the Agency, the state, or any political subdivision thereof are pledged for the payment of the principal or interest on the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying general-purpose financial statements.

(g) Special Assessment Debt for which the City is Not Obligated in Any Manner

Certain special assessment districts are established in various parts of the City to provide improvements to properties located in those districts. Properties in the assessment districts listed below are assessed for the cost of improvements and these assessments are payable solely by property owners over the term of the debt issued to finance the improvements. The City is not legally obligated to pay these debts or to be the purchaser of last resort of foreclosed properties in these special assessment districts, nor is it obligated to advance City funds to repay this debt in the event of default. At June 30, 2004, the total balance of these districts' outstanding debt was \$25,295,000, comprised of \$10,215,000 for Morgan Hill Ranch 1998; \$4,795,000 for Morgan Hill Ranch Reassessment 2004; \$10,285,000 for Madrone Business Park A & B.

(h) Legal Debt Limit and Debt Margin

The City's legal debt limit and debt margin was \$629,964,315 as of June 30, 2004.

8. SEWER CAPACITY RIGHTS/REFUNDING

In May 1992, the City entered into a Joint Powers Agreement with the City of Gilroy to create the South County Regional Wastewater Authority (SCRWA). The Authority was formed to purchase or acquire property and own and operate wastewater treatment facilities through cooperative action.

8. SEWER CAPACITY RIGHTS/REFUNDING, (continued)

In September 1992, the Authority issued bonds totaling \$66,480,000 of which the City's portion (42%) was \$28,065,000. The bonds mature serially through August 2022 and bear interest at rates ranging from 4.5% to 5.75%. Under the Joint Powers Agreement, proceeds from the City's portion of the bonds were used to retire \$5,000,000 outstanding 1988 Sewer Certificate of Participation (COPS) and to finance the City's share of the capacity expansion costs for the sewage treatment facility.

In October 2002, the City issued \$25,390,000 in advance refunding revenue bonds to reduce the cost of future debt service and interest payments. The proceeds were used to refund and retire the 1992 B SCRWA bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the business-type activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$22,318. This excess was applied to the costs of issuance. The remaining life of the old debt and the life of the new debt are the same, ten years. This advance refunding will reduce debt service payments over the next ten years by \$2,308,196 and resulted in an economic gain of \$1,618,563.

The bonds are limited obligations of the Authority and are secured by a pledge of net revenues of the City's sewer enterprise fund and those of the City of Gilroy. The City is obligated to make installment payments to the Authority in the amount of the debt service requirements applicable to its portion of the debt. The City maintained sufficient sewer rates to make the required payments. Complete financial statements for the Authority may be obtained from the City of Gilroy (which maintains the financial records for the Authority) at the following address:

City of Gilroy
Attention: Finance Department
7351 Rosanna Street
Gilroy, CA 95020.

Future installment payments due by the City as of June 30, 2004 are as follows:

<u>Year Ending June 30</u>	<u>Installment Payment Due</u>
2005	1,809,737
2006	1,810,037
2007	1,809,937
2008	1,814,388
2009	1,815,675
2010-2014	9,046,476
2015-2019	9,035,350
2020-2023	7,088,144
Total principal & interest payments	\$34,299,744
Less amounts representing:	
Interest	(9,954,744)
Discounts	(2,565,506)
Total principal amount due (including current portion due)	\$21,709,494

9. EMPLOYEES' RETIREMENT PLAN

Plan Description

All permanent employees are eligible to participate in the Public Employees' Retirement Fund (the Fund) of the State of California's Public Employees Retirement System (CalPERS). The Fund is an agent multiple-employer defined benefit plan that acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. The Fund provides retirement, disability, and death benefits based on the employee's years of service, age and final compensation. Employees vest after five years of service and may receive retirement benefits at age fifty. These benefit provisions and all other requirements are established by State statute and City ordinance.

Copies of the Fund's annual financial report may be obtained from:

CalPERS Executive Office
400 P Street
Sacramento, CA 95814

Funding Policy

Public safety employees and all other employees have an obligation to contribute 9% and 7% of their salary to the Fund, respectively. The City makes the contributions required of City employees on their behalf and for their account, with the exception of safety and certain management personnel who are contributing the obligation through their earnings. The City is required to contribute at an actuarially determined rate. The required employer contribution rates for fiscal year 2003-04 were 6.805% for public safety personnel and 2.469% for miscellaneous employees of annual covered payroll. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. For fiscal year ending June 30, 2004, CalPERS covered payroll totaled \$11,247,968. Employee contributions to the fund were \$842,568, paid by a combination of management employees, safety employees, and the City.

Annual Pension Cost

The City's annual pension cost for the Fund was equal to the City's required and actual contributions which were determined as part of the June 2001 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses) and (b) projected salary increases that vary by duration of service, 3.25% overall. Both (a) and (b) include an inflation component of 3.0%. The actuarial value of assets was determined using a technique that smoothes the effect of short-term volatility in the market value of investments over a three year period depending on the size of investment gains and/or losses. The unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The amortization period of any unfunded actuarial liabilities (or excess assets) of the City has an average remaining period of 17 years, determined by the plan's date of entry. Subsequent plan amendments are amortized as a level percent of pay over a closed 20-year period.

9. EMPLOYEES' RETIREMENT PLAN, (continued)

Three-Year Trend Information

The following table shows the employer's required contributions and the percentage contributed, for the current year and each of the preceding two years.

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2002	\$0	100%	\$0
6/30/2003	\$0	100%	\$0
6/30/2004	\$397,410	100%	\$0

10. NET ASSETS

Net assets consist of restricted and unrestricted amounts. Restricted net assets represent that portion which is not available for appropriation or expenditure, or is legally segregated for a specific future use.

Restricted net assets at June 30, 2004 are as follows:

	Govt-Type Activities	Business-Type Activities	Component Unit
Restricted for:			
Invested in capital assets	\$86,395,079	\$51,921,214	
Low and Mod income housing, under state law	6,850,282		
Capital improvements, under state law	12,432,436	5,680,673	
Debt service	399,060	2,283,709	
Total Restricted Net Assets	\$106,076,857	\$59,885,596	
Unrestricted	61,063,413	15,366,251	\$283,036
Total Net Assets	\$167,140,270	\$75,251,847	\$283,036

11. INTERFUND TRANSACTIONS

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year, if not during the fiscal year. Interfund transactions are reported on the governmental fund type statements but are eliminated for government-wide reporting.

At June 30, 2004 there was an interfund balance in Proprietary fund statements in the amount of \$273,763. The water impact (mitigation) fund borrowed \$273,763 from the water operations fund to cover a temporary cash shortage. The water impact fund is expected to repay this loan as soon as sufficient cash is available. This has been eliminated on the statement of net assets for government-wide reporting

12. COMMITMENTS/CONTINGENCIES

(a) Grant Programs

The City participates in a number of state and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The City's compliance with applicable program requirements will be determined at a future date. The amount of any expenditure which may be disallowed by the grantor agencies cannot be determined at this time. However, the City expects such amounts to be immaterial and has met all requirements of the various programs in the past.

(b) Low and Moderate Housing Requirements of the Agency

The California Health and Safety Code, Section 33334.3 requires the Agency to set aside 20% of the proceeds from its incremental property tax revenues for expenditures for low and moderate income housing. Related interest earned on these funds must also be set aside for such purposes.

The Agency established the Housing Capital Projects Fund to account for this commitment and has reserved \$6,872,095 for such expenditures. The Agency has expended approximately \$21,390,437 for low and moderate income housing since its inception.

(c) Redevelopment Plan Requirements of the Agency

Effective January 1, 1995, the State Legislature passed Assembly Bill 1290. This legislation imposes several new requirements on redevelopment agencies and permits the establishment of new time limits for the issuance of debt, plan termination, and the collection of tax increment. The Agency amended its redevelopment plan during the year ended June 30, 1995 to be in accordance with these requirements.

As part of AB 1290, the Agency is required to report any "excess surplus" to the Federal Department of Housing and Community Development. An excess surplus exists for a fiscal year if the unencumbered balance at year-end in the Agency's Low and Moderate Housing Capital Project Fund exceeds the greater of \$1 million or the aggregate amount of tax increments deposited into this fund during the preceding four fiscal years. If any excess surplus is not spent or encumbered within three years it must be transferred to the County's housing authority. The Agency did not have any excess surplus housing funds for the fiscal year ended June 30, 2004, based on calculations by the Agency's management.

As detailed in the current redevelopment plan amended November 1999, the maximum amount of tax increment revenue that the Agency may collect over its lifetime is \$247 million. The Agency had collected approximately \$178 million of tax increment revenue from its inception through June 30, 2004, leaving approximately \$69 million remaining to be collected in the future through the year 2031.

(d) Risk Management

The City Attorney and the City's Risk Manager have determined that the City's probable loss contingencies, which are accrued for as the estimated liability for claims and judgments as of June 30, 2004, are approximately \$878,862. This amount is based on the requirements of GASB Statements No. 10 and 30, which require that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

12. COMMITMENTS/CONTINGENCIES, (continued)

Changes in the reported liability since June 30, 2002 resulted in the following:

	Unemployment and Workers' Compensation	General Liability	Total
Liability as of 6/30/02	\$709,964	\$346,417	\$1,056,381
Claims and changes in estimates during the year ended 6/30/03	163,740	96,350	260,090
Claims payments during the year ended 6/30/03	(273,740)	(116,950)	(390,690)
Liability as of 6/30/03	\$599,964	\$325,817	\$925,781
Claims and changes in estimates during the year ended 6/30/04	835,379	5,209	840,588
Claims payments during the year ended 6/30/04	(696,764)	(190,743)	(887,507)
Liability as of 6/30/04	\$738,579	\$140,283	\$878,862

In addition, with respect to the general liability accrual, the City has several other unsettled lawsuits filed or claims asserted against it as of June 30, 2004. The City has reviewed these claims and lawsuits in order to evaluate the likelihood of an unfavorable outcome to the City. As a result of such review, the City has categorized such claims and lawsuits as "remote" loss contingencies, as defined in FASB Statement No. 5.

The final outcome of claims and lawsuits which have been categorized as remote loss contingencies is not presently determinable and any associated potential loss cannot be estimated. Accordingly, no provision has been made in the accompanying basic financial statements relative to the potential outcome of such claims and lawsuits. The ultimate resolution of such claims and lawsuits is not expected to have a material effect on the accompanying basic financial statements.

The balances in the City's General Liability, Workers' Compensation and Unemployment Insurance Internal Service Funds include a reasonable reserve for anticipated future catastrophic losses.

(e) Gann Spending Limitation Initiative

Under Article XIII B of the California Constitution, the City is restricted as to the amount of annual appropriations from proceeds of taxes. If the proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller or returned to the taxpayers through revised tax rates or revised fee schedules, or an excess in one year may be offset against a deficit in the following year. For the fiscal year ended June 30, 2004, based on calculations by the City's management, proceeds of taxes did not exceed appropriations.

12. COMMITMENTS/CONTINGENCIES, (continued)

(f) Construction and Other Significant Commitments

Listed below are the projects for uncompleted contracts over \$200,000 outstanding as of June 30, 2004 for all funds.

<u>Project Name</u>	<u>Contract Outstanding</u>
Library	\$809,072
Police Facility	526,713
Indoor Recreation Center	1,126,707
Llagas Flood Control	300,000
Radio Telemetry	215,075
Sports Complex-Aquatics	\$1,172,174

(g) Contracting out of Fire and Emergency Medical Services

On September 6, 1996, the City approved a fire and emergency service agreement with the Santa Clara County Central Fire Protection District, (the District), with an effective start date of October 2, 1996. The agreement consisted of the following terms:

The expiration date of the agreement is July 1, 2005, at which time it will automatically renew for ten years unless the City or District provides written notice of non-renewal to the other party at least 180 days prior to the expiration date of the agreement.

The City paid \$3,744,977 in operating fees for services provided under this agreement for fiscal year 2004. Annual charges for services are adjusted each year for the change in the Consumer Price Index for the San Francisco Bay Area or the average annual cost of living increase in total compensation provided to all fire suppression non- management employees of the District, whichever is less.

In the event an additional fire station is needed to provide adequate fire and emergency medical services to the City, an additional \$1.3 million (adjusted for inflation or wage increases, whichever is less) shall be charged to the City by the District for these services annually.

The District shall submit to the City by January 1st of each year a proposal for capital needs for fire services for the City to consider in its budget process for the following fiscal year. Fire impact fees will not be used to offset contract costs unless mutually agreed. All capital expenditures contemplated must meet the legal requirements for using impact fees.

13. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, errors and omissions, general liability, injuries to employees and unemployment claims. The City currently reports all of its risk management activities in Internal Service Funds. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated using actuarial methods or other estimating techniques. These losses include an estimate of claims that have been incurred but not reported. The City's basic financial statements also reflect as expenses the premiums assessed for insurance coverage, which are based on periodic actuarial studies by the firms providing coverage to the City.

13. RISK MANAGEMENT, (continued)

The City is self-insured for workers' compensation up to a maximum of \$250,000 per occurrence; purchased insurance covers the excess up to \$5,000,000 per year. The City is also fully self-insured for unemployment insurance. In addition, the City participates in the Association of Bay Area Governments Pooled Liability Insurance Network (ABAG-PLAN), a self-funded pooled insurance corporation established by a joint powers authority in which the City is one of 30 members. ABAG-PLAN provides general liability insurance up to \$10,000,000 per occurrence through a combination of \$5,000,000 pool coverage and \$5,000,000 of excess insurance, subject to a \$100,000 deductible. The rights and responsibilities of the member agencies are governed by the bylaws of the ABAG-PLAN, the risk coverage agreement, and a related memorandum of coverage. Each member chooses its self-insured liability retention at a level between \$25,000 and \$250,000. Each member has a vote in approving the pool's self-insured retention level, in setting the coverage limit, in establishing the level of pool reserves, approving the premium allocation methodology for setting premiums for each member, and in approving the methodology for returning disburseable equity to members. ABAG-PLAN is responsible for administering the insurance program. ABAG-PLAN provides claims administration and risk management services to the members.

ABAG-PLAN also provides property insurance for the City, including a \$5,000 deductible per occurrence, except for vehicles where there is a \$10,000 deductible per occurrence. Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years and there were no reductions in the City's insurance coverage during the year ended June 30, 2004.

Complete financial statements for ABAG-PLAN may be obtained at the following address:

ABAG Plan Corporation
Finance Department
P.O. Box 2050
Oakland, CA 94604

14. JOINT POWERS AUTHORITY (Discretely presented component unit)

The City and the Morgan Hill Unified School District formed the Corporation Yard Commission, a joint powers authority, in 1975. The Commission issued bonds for real property improvements and leased the property to the City and the School District. The annual lease payments made to the Commission were approximately equal to debt service payments on the bonds and operating costs of the Commission. The lease expired in December 1999, coinciding with the final payment on the bond issue. Title to the property vested with the City at the end of the lease term.

The City and the School District entered into a new lease agreement, effective May 22, 2000, whereby the City has leased a portion of the Corporation Yard to the District. Premises are leased for use as a bus barn for fueling, maintenance, parking and washing. The current lease expires December 31, 2006.

In June of 1995, the property that is shared by the School District and the City was contaminated by a leaking fuel tank. Costs through June 30, 2004 for clean-up and legal fees have been \$2,058,159 of which \$1,500,000 has been reimbursed by the State Water Resources Control Board Underground Storage Tank Fund. It is expected the clean up will be completed in the year 2007 at an additional cost of \$2,000,000.

15. PRIOR PERIOD ADJUSTMENTS

Governmental Funds

The City recorded two prior period adjustments in the governmental funds. Reserved fund balance for loans receivable was reclassified to deferred revenue, effectively removing this amount from fund balance. The accounts affected by this adjustment were in the Community Development Block Grant fund and the Redevelopment Agency fund. In addition, in the General Fund, the City accrued motor vehicle license fees received in July as June 2004 revenue. In order to not have more than twelve months receipts we adjusted for the prior year's revenue that was not accrued at June 30, 2003. The total adjustments reducing beginning fund balance were \$21,090,436.

In addition, this being the second year reporting under GASB 34, we discovered a mathematical error in beginning net assets in the prior years statements relating to capital assets and depreciation. This shows as an adjustment to beginning net assets on the statement of activities.

Business-type Activities

The City recorded two prior period adjustments in the business-type activities funds. These adjustments were due to a reconciliation of capital assets and associated accumulated depreciation. The adjustments resulted in a net increase to fund balance for business-type activities in the amount of \$52,542.

16. SUBSEQUENT EVENTS

In August 2004, the Morgan Hill Financing Authority issued \$7,395,000 in lease revenue bonds for the construction and purchase of a new police facility. The bonds are identified as Lease Revenue Bonds (Police Facility) 2004. The bonds bear an annual interest rate ranging from 3.0 to 4.75% and have a final maturity date of 2034. The bonds will be payable from revenues consisting primarily of base rental payments made by the City to the Authority.

The Morgan Hill Financing Authority issued \$7,740,000 in Water Revenue Bonds in October 2004. The proceeds of the issue are to finance capital improvements to the City's water system, fund a reserve account for the bonds and pay the costs of issuance of the bonds. The installment payments are special limited obligations of the City payable solely from and secured by a pledge of net revenues of the water system. The interest rate ranges from 4.25 to 4.50%. The bonds mature in the year 2034.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

PENSION PLAN

SCHEDULE OF FUNDING PROGRESS

Miscellaneous Plan

Valuation Date	Entry Normal Accrued Liability	Age of Actuarial Value Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL As a % of Payroll
6/30/01	16,316,268	19,818,634	(3,502,366)	129.3%	6,245,280	(56.1%)
6/30/02	18,881,880	19,103,311	(221,431)	101.2%	7,488,761	(3.0%)
6/30/03	23,557,156	19,955,630	3,601,526	84.7%	8,367,277	43.0%

Safety Plan

Valuation Date	Entry Normal Accrued Liability	Age of Actuarial Value Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL As a % of Payroll
6/30/01	23,994,711	26,361,563	(2,366,852)	109.9%	2,540,333	(93.2%)
6/30/02	17,964,413	16,159,331	1,805,082	90.0%	2,494,782	72.4%
6/30/03	19,732,425	16,263,493	3,468,932	82.4%	2,759,801	125.7%

Combining and Individual Fund Financial Statements



**CITY OF MORGAN HILL
JUNE 30, 2003**

Redevelopment Agency Capital Projects Fund

The Redevelopment Agency Capital Projects Fund accounts for property tax increment revenues received by the Redevelopment Agency. The funds received are used to pay for capital project in accordance with Redevelopment Plan, for economic development, and for affordable housing programs.

**City of Morgan Hill Redevelopment Agency
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual - Capital Projects Fund
For the Year Ended June 30, 2004**

	Capital Projects			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Property taxes and special assessments	\$ 14,086,573	\$ 14,086,573	\$17,639,606	\$ 3,553,033
Investment income and rentals			261,200	261,200
Fines, forfeitures and other revenues	50,000	51,500	399,787	348,287
Total revenues	14,136,573	14,138,073	18,300,593	4,162,520
Expenditures:				
Current				
General government	1,507,317	1,596,163	5,477,201	(3,881,038)
Community and Economic Development	2,516,120	2,721,807	3,503,278	(781,471)
Capital Outlay				
Capital Assets	2,000	4,260		4,260
Construction projects	19,620,714	23,696,514	18,525,884	5,170,630
Land Acquisition	3,700,000	13,144,959	4,251,862	8,893,097
Debt Service:				
Principal			5,800,000	(5,800,000)
Total expenditures	27,346,151	41,163,703	37,558,225	3,605,478
Excess (deficiency) of revenues over (under) expenditures	(13,209,578)	(27,025,630)	(19,257,632)	557,042
Other Financing sources (uses):				
Operating transfers in			1,634,282	1,634,282
Operating transfers (out)			(75,447)	(75,447)
Proceeds from long-term debt	9,400,000	9,400,000		(9,400,000)
Total other financing sources (uses)	9,400,000	9,400,000	1,558,835	(7,841,165)
Net change in fund balances	(3,809,578)	(17,625,630)	(17,698,797)	(7,284,123)
Adjustments to budgetary basis			2,913,453	2,913,453
Fund Balances-Beginning	20,945,175	20,945,175	20,945,175	
Reclassification of fund balance reserve to deferred revenue			(2,219,817)	
Adjustments to Beginning Fund Balance			(84,626)	
Fund Balances-Ending	\$ 17,135,597	\$ 3,319,545	\$ 3,855,388	\$ (4,370,670)

Non Major Description



CITY OF MORGAN HILL
JUNE 30, 2003
Nonmajor Governmental Funds

Special Revenue Funds

Special Revenue Funds account for the proceeds of special revenue sources, other than special assessments, and major capital projects, that are legally restricted to expenditures for specified purposes.

Supplemental Law Enforcement Services-This fund accounts for the receipt of one time General Fund revenues, AB3229 and grant monies to be used to fund additional police officers and one time capital expenditures.

Community Development-This fund accounts for revenues and expenditures associated with processing development applications, building inspections, engineering services and related fee supported activities.

Street Maintenance-This fund receives monies from state gas taxes based on population, and the funds may be expended only for street and road repair, maintenance, design, construction, and traffic signal design and installation. Proposition 111 monies from state gas taxes are received for the Congestion Management Program.

General Plan Update-This fund accounts for revenues and expenditures associated with the City's general plan update.

Housing Block Grants-This fund receives revenues from Santa Clara County on a reimbursement basis, as a part of the federal government's program for low and moderate housing. Expenditures are restricted as to types of activities and nature of expense, and must benefit low and moderate income individuals seeking housing.

Museum Rental-This fund receives fees from the City owned museum, which are used to offset its operating costs.

Asset Seizure-This fund accumulates revenue from the seizure of assets obtained by the police department from drug enforcement activities. Expenditures may be made from these funds only for police related activities in accordance with guidelines established by the state and federal governments.

Lighting and Landscape Districts-This fund derives its revenues from an assessment based on expenditures by the City for maintenance services to park areas within small developments. These services benefit the properties against which assessments are levied by ensuring proper upkeep.

Environmental Programs-Sources of funding are limited to 6% of the franchise fee and revenues from the countywide AB939 fee, which are used to fund expenditures related to solid waste management.

Mobile Home Rent Stabilization-This fund was created to monitor the fees charged to the mobile home park owners and tenants, as regulated by the Rent Stabilization Ordinance, and to ensure that they cover the City's cost for arbitration and litigation.

Senior Housing Fund-This fund was established to assist eligible elderly person in the City and in the City's sphere of influence in meeting their housing-related needs.

CITY OF MORGAN HILL
JUNE 30, 2003
Nonmajor Governmental Funds

Special Revenue Funds, (Continued)

Housing Mitigation Fund-This fund receives in-lieu funding from developers who compete in the City's Residential Development Control System (Measure P). Funds are used in providing shelter and services.

Community Center Fund-This fund was created to account for the startup costs of the Community Cultural Center.

Employee Assistance-This fund was created to support various employee financial assistance programs. The first program, the employee computer loans, makes technology use affordable for all employees and improves skills in the workplace by encouraging use at home. Fund will be used on a revolving basis, and any future loans will be made from the repayment of previous loans.

Capital Projects Funds

Capital Projects Funds account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by Proprietary and Special Revenue funds.

Park Capital Improvement-This fund receives revenues from developers of properties and the fund may only be used for the design, development, maintenance, and construction of new parks within the City.

Park Maintenance-This fund receives revenues from developers of properties and the funds may be used for the maintenance of the City's parks and for purchase of land for open space.

Storm Drain-This fund receives revenues from developers of properties and the funds may only be used for the design and construction of new storm drains.

Off Street Parking- This fund accumulates revenue from charges to developers within the downtown core area to help meet future parking requirements.

Open Space-This fund receives revenues from developers of properties and the funds may be used for the purchase of land for open space.

Traffic Mitigation-This fund receives revenues from developers when their projects have an adverse impact on traffic flows, etc. The fund collected may be expended on new streets, traffic signals and improvements of existing streets where they are impacted by new development.

Police, Fire, and Library Mitigation-These funds' revenues are derived from a fee charged to developers to cover the costs required for police, fire, and library capital expansion projects to assist in providing service to new developments.

Public Facilities-This fund has no established source of revenue. Funds are transferred into this fund from the General Fund or other funds as they become available for capital projects which may not be funded by the other capital funds. Typical projects are sidewalk repair and replacement.

**CITY OF MORGAN HILL
JUNE 30, 2003
Nonmajor Governmental Funds**

Capital Projects Funds, (Continued)

Undergrounding-This fund received revenues from developers for the undergrounding of utilities in areas of new development. Expenditures may be made only for the costs of design and construction associated with undergrounding.

Morgan Hill Business Ranch-This fund accounts for costs incurred in the design and construction of streets in this assessment district.

Debt Service Funds

Debt Service Funds account for the accumulation of resources for the payment of general long-term debt principal, interest and related costs.

Encino Hills Fund, Morgan Hill Business Park Fund, Sutter Business Park Fund, Cochrane Business Park Fund, and Joleen Way Fund-These funds are established to permit the City to sell bonds to provide the funds to construct improvements in new developments. Typically, these improvements are streets, curbs, gutters, sidewalks, water and sewer lines, undergrounding of utilities, and storm drains. The individual lots are assessed a proportionate share of the improvements and the County levies this assessment as part of the annual property tax bill. The county remits the collections to the City, and which in turn pays the debt service on the bonds. The City has some legal obligation for repayment of these bonds.

**City of Morgan Hill
Combining Balance Sheet
Nonmajor Governmental Funds
For the Year Ended June 30, 2004**

	Special Revenue Funds			
	Supplemental Law Enforcement	Community Development	Street Maintenance	General Plan Update
<u>Assets</u>				
Pooled cash and investment	\$ 320,713	\$ 1,589,923	\$ 1,248,957	\$ 231,283
Restricted pooled cash and investments				
Receivables:				
Accrued interest	1,252	5,395	4,247	772
Other accounts receivable		1,469	303,775	
Deposit in Escrow/Prepaid Item			95,330	
Investment in properties held for resale				
Loans receivable				
Taxes and special assessments				
Fixed assets, net				
Total Assets	321,965	1,596,787	1,652,309	232,055
<u>Liabilities</u>				
Accounts payable		66,231	184,634	4
Accrued liabilities		48,151	12,923	202
Due to other funds				
Deferred revenue				
Total liabilities	-	114,382	197,557	206
<u>Fund Balances</u>				
Reserved for:				
Encumbrances		191,862	211,241	87,244
Low and moderate income housing				
Noncurrent loans and notes receivable				
Properties held for resale				
Debt Service				
Capital expansion projects				
Unreserved:				
Undesignated	321,965	1,290,543	1,243,511	144,605
Total Fund Balances	321,965	1,482,405	1,454,752	231,849
Total Liabilities and Fund Balances	\$ 321,965	\$ 1,596,787	\$ 1,652,309	\$ 232,055

**City of Morgan Hill
Combining Balance Sheet
Nonmajor Governmental Funds
For the Year Ended June 30, 2004**

	Special Revenue Funds (continued)			
	Community Dev Block Grant	Museum Rental	Asset Seizure	Lighting and Landscape
<u>Assets</u>				
Pooled cash and investment	\$ -	\$ -	\$ 38,820	\$ 18,684
Restricted pooled cash and investments	9,596			
Receivables:				
Accrued interest	806		136	
Other accounts receivable	152,929			
Deposit in Escrow/Prepaid Item				
Investment in properties held for resale				
Loans receivable	695,952			
Taxes and special assessments				
Fixed assets, net				
Total Assets	<u>859,283</u>	<u>-</u>	<u>38,956</u>	<u>18,684</u>
<u>Liabilities</u>				
Accounts payable	32,493			19,224
Accrued liabilities	3,319			633
Due to other funds				
Deferred revenue	695,951			
Total liabilities	<u>731,763</u>	<u>-</u>	<u>-</u>	<u>19,857</u>
<u>Fund Balances</u>				
Reserved for:				
Encumbrances	52,492			
Low and moderate income housing				
Noncurrent loans and notes receivable				
Properties held for resale				
Debt Service				
Capital expansion projects				
Unreserved:				
Undesignated	75,028		38,956	(1,173)
Total Fund Balances	<u>127,520</u>	<u>-</u>	<u>38,956</u>	<u>(1,173)</u>
Total Liabilities and Fund Balances	<u>\$ 859,283</u>	<u>\$ -</u>	<u>\$ 38,956</u>	<u>\$ 18,684</u>

**City of Morgan Hill
Combining Balance Sheet
Nonmajor Governmental Funds
For the Year Ended June 30, 2004**

	Special Revenue Funds (continued)			
	Environmental Programs	Mobile Home Park Rent Stabilization	Housing Development	Employee Assistance
<u>Assets</u>				
Pooled cash and investment	\$ 544,572	\$ 207,481	\$ 1,393,794	\$ 79,517
Restricted pooled cash and investments				
Receivables:				
Accrued interest	2,084		4,562	61
Other accounts receivable	133,069			971
Deposit in Escrow/Prepaid Item				
Investment in properties held for resale				
Loans receivable				21,880
Taxes and special assessments				
Fixed assets, net				
Total Assets	<u>679,725</u>	<u>207,481</u>	<u>1,398,356</u>	<u>102,429</u>
<u>Liabilities</u>				
Accounts payable	942	38,901	3,810	
Accrued liabilities	3,449			
Due to other funds				
Deferred revenue				21,880
Total liabilities	<u>4,391</u>	<u>38,901</u>	<u>3,810</u>	<u>21,880</u>
<u>Fund Balances</u>				
Reserved for:				
Encumbrances	17,633	195,343		
Low and moderate income housing				
Noncurrent loans and notes receivable				
Properties held for resale				
Debt Service				
Capital expansion projects				
Unreserved:				
Undesignated	657,701	(26,763)	1,394,546	80,549
Total Fund Balances	<u>675,334</u>	<u>168,580</u>	<u>1,394,546</u>	<u>80,549</u>
Total Liabilities and Fund Balances	<u>\$ 679,725</u>	<u>\$ 207,481</u>	<u>\$ 1,398,356</u>	<u>\$ 102,429</u>

City of Morgan Hill
Combining Balance Sheet
Nonmajor Governmental Funds
For the Year Ended June 30, 2004

	Special Revenue Funds (continued)		
	Community Center	Environment Remediation	TOTAL
<u>Assets</u>			
Pooled cash and investment	\$ 99,328	\$ 570,000	\$ 6,343,072
Restricted pooled cash and investments			9,596
Receivables:			
Accrued interest	350		19,665
Other accounts receivable			592,213
Deposit in Escrow/Prepaid Item			95,330
Investment in properties held for resale			
Loans receivable			717,832
Taxes and special assessments			
Fixed assets, net			
Total Assets	99,678	570,000	7,777,708
<u>Liabilities</u>			
Accounts payable			346,239
Accrued liabilities			68,677
Due to other funds			0
Deferred revenue			717,831
Total liabilities	-	-	1,132,747
<u>Fund Balances</u>			
Reserved for:			
Encumbrances			755,815
Low and moderate income housing			0
Noncurrent loans and notes receivable			0
Properties held for resale			0
Debt Service			0
Capital expansion projects			0
Unreserved:			0
Undesignated	99,678	570,000	5,889,146
Total Fund Balances	99,678	570,000	6,644,961
Total Liabilities and Fund Balances	\$ 99,678	\$ 570,000	\$ 7,777,708

**City of Morgan Hill
Combining Balance Sheet
Nonmajor Governmental Funds
For the Year Ended June 30, 2004**

	Debt Service Funds			
	Encino Hills	Morgan Hill Business Park	Sutter Business Park	Cochrane Business Park
<u>Assets</u>				
Pooled cash and investment	\$ -	\$ -	\$ -	\$ -
Restricted pooled cash and investments				374,218
Receivables:				
Accrued interest				1,036
Other accounts receivable				
Deposit in Escrow/Prepaid Item				
Investment in properties held for resale				
Loans receivable				
Taxes and special assessments				1,555,760
Fixed assets, net				
Total Assets	-	-	-	1,931,014
<u>Liabilities</u>				
Accounts payable				
Accrued liabilities				
Due to other funds				
Deferred revenue				1,555,760
Total liabilities	-	-	-	1,555,760
<u>Fund Balances</u>				
Reserved for:				
Encumbrances				
Low and moderate income housing				
Noncurrent loans and notes receivable				
Properties held for resale				
Debt Service				375,254
Capital expansion projects				
Unreserved:				
Undesignated				
Total Fund Balances	-	-	-	375,254
Total Liabilities and Fund Balances	\$ -	\$ -	\$ -	\$ 1,931,014

**City of Morgan Hill
Combining Balance Sheet
Nonmajor Governmental Funds
For the Year Ended June 30, 2004**

	Debt Service Funds (cont')		Capital Projects Funds	
	Joleen Way	TOTAL	Park Capital Improvement	Park Maintenance
<u>Assets</u>				
Pooled cash and investment	\$ -	\$ -	\$ -	\$ 3,036,624
Restricted pooled cash and investments	23,776	397,994	3,542,264	
Receivables:				
Accrued interest	30	1,066	12,911	10,582
Other accounts receivable				
Deposit in Escrow/Prepaid Item				
Investment in properties held for resale				
Loans receivable				
Taxes and special assessments	99,456	1,655,216		
Fixed assets, net				
Total Assets	123,262	2,054,276	3,555,175	3,047,206
<u>Liabilities</u>				
Accounts payable			16,071	
Accrued liabilities				
Due to other funds				
Deferred revenue	99,456	1,655,216		
Total liabilities	99,456	1,655,216	16,071	
<u>Fund Balances</u>				
Reserved for:				
Encumbrances			25,329	
Low and moderate income housing				
Noncurrent loans and notes receivable				
Properties held for resale				
Debt Service	23,806	399,060		
Capital expansion projects			3,513,775	
Unreserved:				
Undesignated				3,047,206
Total Fund Balances	23,806	399,060	3,539,104	3,047,206
Total Liabilities and Fund Balances	\$ 123,262	\$ 2,054,276	\$ 3,555,175	\$ 3,047,206

City of Morgan Hill
Combining Balance Sheet
Nonmajor Governmental Funds
For the Year Ended June 30, 2004

	Capital Projects Funds (continued)			
	Storm Drains	Off Street Parking	Open Space	Traffic Mitigation
<u>Assets</u>				
Pooled cash and investment	\$ 3,151,658	\$ -	\$ 696,813	\$ -
Restricted pooled cash and investments	3,017,303			3,305,667
Receivables:				
Accrued interest	21,688		2,265	12,114
Other accounts receivable	120,000			14,931
Deposit in Escrow/Prepaid Item				
Investment in properties held for resale				
Loans receivable				10,969
Taxes and special assessments				
Fixed assets, net				
Total Assets	6,310,649	-	699,078	3,343,681
<u>Liabilities</u>				
Accounts payable	33,542			212,968
Accrued liabilities				
Due to other funds				
Deferred revenue				10,969
Total liabilities	33,542	-	-	223,937
<u>Fund Balances</u>				
Reserved for:				
Encumbrances	13,070			430,879
Low and moderate income housing				
Noncurrent loans and notes receivable				
Properties held for resale				
Debt Service				
Capital expansion projects	3,017,303			2,688,865
Unreserved:				
Undesignated	3,246,734		699,078	
Total Fund Balances	6,277,107	-	699,078	3,119,744
Total Liabilities and Fund Balances	\$ 6,310,649	\$ -	\$ 699,078	\$ 3,343,681

**City of Morgan Hill
Combining Balance Sheet
Nonmajor Governmental Funds
For the Year Ended June 30, 2004**

	Capital Projects Funds (continued)			
	Police Mitigation	Fire Mitigation	Public Facilities	Library Mitigation
<u>Assets</u>				
Pooled cash and investment	\$ -	\$ -	\$ 1,418,047	\$ -
Restricted pooled cash and investments	78,990	2,325,585	275,456	489,281
Receivables:				
Accrued interest	4,380	7,984	6,547	1,672
Other accounts receivable			694	
Deposit in Escrow/Prepaid Item			36,670	
Investment in properties held for resale				
Loans receivable				
Taxes and special assessments				
Fixed assets, net				
Total Assets	83,370	2,333,569	1,737,414	490,953
<u>Liabilities</u>				
Accounts payable			486,768	
Accrued liabilities				
Due to other funds				
Deferred revenue				
Total liabilities	-	-	486,768	-
<u>Fund Balances</u>				
Reserved for:				
Encumbrances	10,000	9,101	565,119	
Low and moderate income housing				
Noncurrent loans and notes receivable				
Properties held for resale				
Debt Service				
Capital expansion projects	73,370	2,324,468	304,796	490,953
Unreserved:				
Undesignated			380,731	
Total Fund Balances	83,370	2,333,569	1,250,646	490,953
Total Liabilities and Fund Balances	\$ 83,370	\$ 2,333,569	\$ 1,737,414	\$ 490,953

City of Morgan Hill
Combining Balance Sheet
Nonmajor Governmental Funds
For the Year Ended June 30, 2004

	Capital Projects Fund (continued)			
	Under Grounding	Morgan Hill Business Ranch	Community/ Rec Center Impact Fund	TOTAL
<u>Assets</u>				
Pooled cash and investment	\$ 1,168,901	\$ 104,465	\$ 18,859	\$ 9,595,367
Restricted pooled cash and investments				13,034,546
Receivables:				
Accrued interest	3,964	361	47	84,515
Other accounts receivable	1,722			137,347
Deposit in Escrow/Prepaid Item				36,670
Investment in properties held for resale				
Loans receivable	28,550			39,519
Taxes and special assessments				
Fixed assets, net				
Total Assets	<u>1,203,137</u>	<u>104,826</u>	<u>18,906</u>	<u>22,927,964</u>
<u>Liabilities</u>				
Accounts payable	34,564			783,913
Accrued liabilities				
Due to other funds				
Deferred revenue	28,550			39,519
Total liabilities	<u>63,114</u>			<u>823,432</u>
<u>Fund Balances</u>				
Reserved for:				
Encumbrances	31,897			1,085,395
Low and moderate income housing				
Noncurrent loans and notes receivable				
Properties held for resale				
Debt Service				
Capital expansion projects			18,906	12,432,436
Unreserved:				
Undesignated	1,108,126	104,826		8,586,701
Total Fund Balances	<u>1,140,023</u>	<u>104,826</u>	<u>18,906</u>	<u>22,104,532</u>
Total Liabilities and Fund Balances	<u>\$ 1,203,137</u>	<u>\$ 104,826</u>	<u>\$ 18,906</u>	<u>\$ 22,927,964</u>

**City of Morgan Hill
Combining Balance Sheet
Nonmajor Governmental Funds
For the Year Ended June 30, 2004**

	Total Nonmajor Govt Funds
<u>Assets</u>	
Pooled cash and investment	\$ 15,938,439
Restricted pooled cash and investments	13,442,136
Receivables:	
Accrued interest	105,246
Other accounts receivable	729,560
Deposit in Escrow/Prepaid Item	132,000
Investment in properties held for resale	
Loans receivable	757,351
Taxes and special assessments	1,655,216
Fixed assets, net	-
Total Assets	<u>32,759,948</u>
<u>Liabilities</u>	
Accounts payable	1,130,152
Accrued liabilities	68,677
Due to other funds	
Deferred revenue	2,412,566
Total liabilities	<u>3,611,395</u>
<u>Fund Balances</u>	
Reserved for:	
Encumbrances	1,841,210
Low and moderate income housing	
Noncurrent loans and notes receivable	
Properties held for resale	
Debt Service	399,060
Capital expansion projects	12,432,436
Unreserved:	
Undesignated	14,475,847
Total Fund Balances	<u>29,148,553</u>
Total Liabilities and Fund Balances	<u>32,759,948</u>

City of Morgan Hill
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the year ended June 30, 2004

	Special Revenue Funds			
	Supplemental			General
	Law	Community	Street	Plan
	Enforcement	Development	Maintenance	Update
<u>Revenues:</u>				
Property taxes and special assessment				
Funding from other governmental agencies	\$ 100,000	\$ -	\$ 665,516	\$ -
Charges for current services		2,761,546	1,211	99,373
Investment income and rentals	9,362	36,886	28,846	4,780
Fines, forfeitures, and other revenues		1,868	706,096	
Total Revenues	109,362	2,800,300	1,401,669	104,153
<u>Expenditures:</u>				
Current:				
General Government				
Public Safety	582			
Community Development		2,027,870		63,149
Streets and Highways			1,748,133	
Parks and Recreation				
Other Public Services		907,728		
Capital outlay:				
Capital assets		4,512	4,401	
Construction Projects			602,514	
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	582	2,940,110	2,355,048	63,149
Excess (deficiency) of revenues over (under) expenditures	108,780	(139,810)	(953,379)	41,004
Other Financing Sources (Uses)				
Transfers in	834	70,486	725,000	
Transfers (out)	(273,000)			
Proceeds from long-term debt				
Total other financing sources (uses)	(272,166)	70,486	725,000	-
Net change in fund balance	(163,386)	(69,324)	(228,379)	41,004
Fund Balances-Beginning	485,351	1,551,729	1,683,131	190,845
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	485,351	1,551,729	1,683,131	190,845
Fund Balances-Ending	\$ 321,965	\$ 1,482,405	\$ 1,454,752	\$ 231,849

Special Revenue Fund						
Community Dev Block Grant	Museum Rental	Asset Seizure	Lighting and Landscape	Environmental Programs	Mobile Home Park Rent Stabilization	Housing Development
\$ 176,677	\$ -	\$ -	\$ 134,492	\$ 338,353 19,496	\$ -	\$ -
6,770	7	859		13,050	5,148	90,000
60		1		83,391		29,230
183,507	7	860	134,492	454,290	5,148	119,230
242,561					146,376	23,600
	2,247		169,431	292,653		
242,561	2,247	-	169,431	292,653	146,376	23,600
(59,054)	(2,240)	860	(34,939)	161,637	(141,228)	95,630
(967)	967			(100,000)	300,000	
(967)	967	-	-	(100,000)	300,000	-
(60,021)	(1,273)	860	(34,939)	61,637	158,772	95,630
636,136	1,273	38,096	33,766	613,697	9,808	1,298,916
(448,595)						
187,541	1,273	38,096	33,766	613,697	9,808	1,298,916
\$ 127,520	\$ -	\$ 38,956	\$ (1,173)	\$ 675,334	\$ 168,580	\$ 1,394,546

City of Morgan Hill
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the year ended June 30, 2004

	Special Revenue Fund			
	Employee Assistance	Community Center	Envirnoment Remediation	Total
<u>Revenues:</u>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ 472,845
Funding from other governmental agencies				961,689
Charges for current services				2,957,278
Investment income and rentals	240	4,521		134,551
Fines, forfeitures, and other revenues	31,678		570,000	1,393,094
Total Revenues	31,918	4,521	570,000	5,919,457
<u>Expenditures:</u>				
Current:				
General Government	20,289			20,289
Public Safety				582
Community Development				2,503,556
Streets and Highways				1,748,133
Parks and Recreation				2,247
Other Public Services				1,369,812
Capital outlay:				
Capital assets				8,913
Construction Projects				602,514
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	20,289	-	-	6,256,046
Excess (deficiency) of revenues over (under) expenditures	11,629	4,521	570,000	(336,589)
Other Financing Sources (Uses)				
Transfers in	60,000			1,157,287
Transfers (out)		(265,000)		(638,967)
Proceeds from long-term debt				
Total other financing sources (uses)	60,000	(265,000)	-	518,320
Net change in fund balance	71,629	(260,479)	570,000	181,731
Fund Balances-Beginning	8,920	360,157		6,911,825
Reclassification of fund balance reserve to deferred revenue				(448,595)
Adjusted Fund Balances - Beginning	8,920	360,157	-	6,463,230
Fund Balances-Ending	\$ 80,549	\$ 99,678	\$ 570,000	\$ 6,644,961

Debt Service					
<u>Encino Hills</u>	<u>Morgan Hill Business Park</u>	<u>Sutter Business Park</u>	<u>Cochrane Business Park</u>	<u>Joleen Way</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 189,798	\$ 35,541	\$ 225,339
1,527	266	560	6,430	247	9,030
<u>1,527</u>	<u>266</u>	<u>560</u>	<u>196,228</u>	<u>35,788</u>	<u>234,369</u>
			95,000	20,000	115,000
			100,392	21,140	121,532
<u>-</u>	<u>-</u>	<u>-</u>	<u>195,392</u>	<u>41,140</u>	<u>236,532</u>
1,527	266	560	836	(5,352)	(2,163)
(69,554)	(12,133)	(25,470)			(107,157)
<u>(69,554)</u>	<u>(12,133)</u>	<u>(25,470)</u>	<u>-</u>	<u>-</u>	<u>(107,157)</u>
<u>(68,027)</u>	<u>(11,867)</u>	<u>(24,910)</u>	<u>836</u>	<u>(5,352)</u>	<u>(109,320)</u>
68,027	11,867	24,910	374,418	29,158	508,380
<u>68,027</u>	<u>11,867</u>	<u>24,910</u>	<u>374,418</u>	<u>29,158</u>	<u>508,380</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 375,254</u>	<u>\$ 23,806</u>	<u>\$ 399,060</u>

City of Morgan Hill
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the year ended June 30, 2004

	Capital Projects				
	Park Capital Improvement	Park Maintenance	Storm Drains	Off Street Parking	Open Space
Revenues:					
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ -	\$ -
Funding from other governmental agencies					
Charges for current services	859,047	243,224	183,135		228,103
Investment income and rentals	79,198	94,739	151,418	38	12,488
Fines, forfeitures, and other revenues	56,365		47,000		
Total Revenues	994,610	337,963	381,553	38	240,591
Expenditures:					
Current:					
General Government					
Public Safety					
Community Development					
Streets and Highways					
Parks and Recreation					
Other Public Services			103,881		
Capital outlay:					
Capital assets					
Construction Projects	397,136		158,034		
Land Acquisition					
Debt service:					
Principal					
Interest and fiscal charges					
Total Expenditures	397,136	-	261,915	-	-
Excess (deficiency) of revenues over (under) expenditures	597,474	337,963	119,638	38	240,591
Other Financing Sources (Uses)					
Transfers in					
Transfers (out)	(250,000)	(200,000)	(30,000)	(4,058)	
Proceeds from long-term debt					
Total other financing sources (uses)	(250,000)	(200,000)	(30,000)	(4,058)	-
Net change in fund balance	347,474	137,963	89,638	(4,020)	240,591
Fund Balances-Beginning	3,191,630	2,909,243	6,187,469	4,020	458,487
Reclassification of fund balance reserve to deferred revenue					
Adjusted Fund Balances - Beginning	3,191,630	2,909,243	6,187,469	4,020	458,487
Fund Balances-Ending	\$ 3,539,104	\$ 3,047,206	\$ 6,277,107	\$ -	\$ 699,078

Capital Projects					
<u>Traffic Mitigation</u>	<u>Police Mitigation</u>	<u>Fire Mitigation</u>	<u>Public Facilities</u>	<u>Library Mitigation</u>	<u>Under Grounding</u>
\$ 1,411,704	\$ 98,647	\$ 195,538	\$ 115,153	\$ 66,514	\$ 68,577
75,181	27,257	54,421	43,682	10,208	27,573
1,608			1,892,000		
<u>1,488,493</u>	<u>125,904</u>	<u>249,959</u>	<u>2,050,835</u>	<u>76,722</u>	<u>96,150</u>
				225	
	25,579				
			315,357		
			660,058		
1,194,864		13,283	1,747,198		213,344
		506,966			
<u>1,194,864</u>	<u>25,579</u>	<u>520,249</u>	<u>2,722,613</u>	<u>225</u>	<u>213,344</u>
<u>293,629</u>	<u>100,325</u>	<u>(270,290)</u>	<u>(671,778)</u>	<u>76,497</u>	<u>(117,194)</u>
			1,538,145		
	(1,200,000)		(1,613,466)		
<u>-</u>	<u>(1,200,000)</u>	<u>-</u>	<u>(75,321)</u>	<u>-</u>	<u>-</u>
<u>293,629</u>	<u>(1,099,675)</u>	<u>(270,290)</u>	<u>(747,099)</u>	<u>76,497</u>	<u>(117,194)</u>
2,826,115	1,183,045	2,603,859	1,997,745	414,456	1,257,217
<u>2,826,115</u>	<u>1,183,045</u>	<u>2,603,859</u>	<u>1,997,745</u>	<u>414,456</u>	<u>1,257,217</u>
<u>\$ 3,119,744</u>	<u>\$ 83,370</u>	<u>\$ 2,333,569</u>	<u>\$ 1,250,646</u>	<u>\$ 490,953</u>	<u>\$ 1,140,023</u>

City of Morgan Hill
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the year ended June 30, 2004

	Capital Projects			
	Morgan Hill Business Ranch	Community/ Rec Center Impact Fund	Total	Total Nonmajor Govt Funds
<u>Revenues:</u>				
Property taxes and special assessment	\$ -	\$ -	\$ -	\$ 698,184
Funding from other governmental agencies			-	961,689
Charges for current services		18,802	3,488,444	6,445,722
Investment income and rentals	2,304	104	578,611	722,192
Fines, forfeitures, and other revenues			1,996,973	3,390,067
Total Revenues	2,304	18,906	6,064,028	12,217,854
<u>Expenditures:</u>				
Current:				
General Government			225	20,514
Public Safety			25,579	26,161
Community Development				2,503,556
Streets and Highways				1,748,133
Parks and Recreation				2,247
Other Public Services			419,238	1,789,050
Capital outlay:				
Capital assets			660,058	668,971
Construction Projects			3,723,859	4,326,373
Land Acquisition			506,966	506,966
Debt service:				
Principal				115,000
Interest and fiscal charges				121,532
Total Expenditures	-	-	5,335,925	11,828,503
Excess (deficiency) of revenues over (under) expenditures	2,304	18,906	728,103	389,351
Other Financing Sources (Uses)				
Transfers in			1,538,145	2,695,432
Transfers (out)			(3,297,524)	(4,043,648)
Proceeds from long-term debt				
Total other financing sources (uses)	-	-	(1,759,379)	(1,348,216)
Net change in fund balance	2,304	18,906	(1,031,276)	(958,865)
Fund Balances-Beginning	102,522		23,135,808	30,556,013
Reclassification of fund balance reserve to deferred revenue				(448,595)
Adjusted Fund Balances - Beginning	102,522	-	23,135,808	30,107,418
Fund Balances-Ending	\$ 104,826	\$ 18,906	\$ 22,104,532	\$ 29,148,553

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

	Special Revenue Funds			
	Supplemental Law Enforcement			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final	Amounts	
<u>Revenues:</u>				
Property taxes and special assessment				
Funding from other governmental agencies	\$ 100,000	100,000	\$ 100,000	-
Charges for current services				-
Investment income and rentals	9,956	9,956	9,362	(594)
Fines, forfeitures, and other revenues				
Total Revenues	109,956	109,956	109,362	(594)
<u>Expenditures:</u>				
Current:				
General Government				
Public Safety	582	582	582	-
Community Development				
Streets and Highways				
Parks and Recreation				
Other Public Services				
Capital outlay:				
Capital assets				
Construction Projects				
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	582	582	582	-
Excess (deficiency) of revenues over (under) expenditures	109,374	109,374	108,780	(594)
Other Financing Sources (uses)				
Operating transfers in	834	834	834	-
Operating transfers (out)	(273,000)	(273,000)	(273,000)	-
Proceeds from long-term debt				
Total other financing sources (uses)	(272,166)	(272,166)	(272,166)	-
Net change in fund balance	(162,792)	(162,792)	(163,386)	(594)
Adjustments to budgetary basis				
Fund Balances-Beginning	485,351	485,351	485,351	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	485,351	485,351	485,351	
Fund Balances-Ending	\$ 322,559	\$ 322,559	\$ 321,965	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

Special Revenue Funds (continued)				
Community Development				Variance with
Budgeted Amounts		Actual	Variance with	
Original	Final	Amounts	Final Budget	Positive
			(Negative)	
<u>Revenues:</u>				
Property taxes and special assessment				
Funding from other governmental agencies				
Charges for current services	\$ 2,237,296	\$ 2,237,296	\$ 2,761,546	\$ 524,250
Investment income and rentals	8,363	8,363	36,886	28,523
Fines, forfeitures, and other revenues	700	700	1,868	1,168
Total Revenues	2,246,359	2,246,359	2,800,300	553,941
<u>Expenditures:</u>				
Current:				
General Government				
Public Safety				
Community Development	1,935,507	2,407,163	2,194,566	212,597
Streets and Highways				
Parks and Recreation				
Other Public Services	1,029,375	1,065,560	932,894	132,666
Capital outlay:				
Capital assets		9,292	4,512	4,780
Construction Projects				
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	2,964,882	3,482,015	3,131,972	350,043
Excess (deficiency) of revenues over (under) expenditures	(718,523)	(1,235,656)	(331,672)	903,984
Other Financing Sources (Uses)				
Operating transfers in	30,000	70,486	70,486	-
Operating transfers (out)				
Proceeds from long-term debt				
Total other financing sources (uses)	30,000	70,486	70,486	-
Net change in fund balance	(688,523)	(1,165,170)	(261,186)	903,984
Adjustments to budgetary basis			191,862	
Fund Balances-Beginning	1,551,729	1,551,729	1,551,729	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	1,551,729	1,551,729	1,743,591	
Fund Balances-Ending	\$ 863,206	\$ 386,559	\$ 1,482,405	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

Special Revenue Funds (continued)				
Street Maintenance				Variance with
	Budgeted Amounts		Actual	Final Budget
	Original	Final	Amounts	Positive
				(Negative)
<u>Revenues:</u>				
Property taxes and special assessment				
Funding from other governmental agencies	\$ 653,400	\$ 653,400	\$ 665,516	\$ 12,116
Charges for current services	500	500	1,211	711
Investment income and rentals	12,361	12,361	28,846	16,485
Fines, forfeitures, and other revenues	2,000	2,000	706,096	704,096
Total Revenues	668,261	668,261	1,401,669	733,408
<u>Expenditures:</u>				
Current:				
General Government				
Public Safety				
Community Development				
Streets and Highways	1,612,661	1,751,796	1,788,835	(37,039)
Parks and Recreation				
Other Public Services				
Capital outlay:				
Capital assets			4,401	(4,401)
Construction Projects	514,800	1,261,206	773,053	488,153
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	2,127,461	3,013,002	2,566,289	446,713
Excess (deficiency) of revenues over (under) expenditures	(1,459,200)	(2,344,741)	(1,164,620)	1,180,121
Other Financing Sources (Uses)				
Operating transfers in	700,000	725,000	725,000	-
Operating transfers (out)				
Proceeds from long-term debt				
Total other financing sources (uses)	700,000	725,000	725,000	-
Net change in fund balance	(759,200)	(1,619,741)	(439,620)	1,180,121
Adjustments to budgetary basis			211,241	
Fund Balances-Beginning	1,683,131	1,683,131	1,683,131	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	1,683,131	1,683,131	1,894,372	
Fund Balances-Ending	\$ 923,931	\$ 63,390	\$ 1,454,752	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

Special Revenue Funds (continued)				
General Plan Update				Variance with
	Budgeted Amounts		Actual	Final Budget
	Original	Final	Amounts	Positive
				(Negative)
<u>Revenues:</u>				
Property taxes and special assessment				
Funding from other governmental agencies				
Charges for current services	\$ 74,700	\$ 74,700	\$ 99,373	\$ 24,673
Investment income and rentals	1,387	1,387	4,780	3,393
Fines, forfeitures, and other revenues				
Total Revenues	76,087	76,087	104,153	28,066
<u>Expenditures:</u>				
Current:				
General Government				
Public Safety				
Community Development	71,257	197,413	150,393	47,020
Streets and Highways				
Parks and Recreation				
Other Public Services				
Capital outlay:				
Capital assets				
Construction Projects				
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	71,257	197,413	150,393	47,020
Excess (deficiency) of revenues over (under) expenditures	4,830	(121,326)	(46,240)	75,086
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers (out)				
Proceeds from long-term debt				
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	4,830	(121,326)	(46,240)	75,086
Adjustments to budgetary basis			87,244	
Fund Balances-Beginning	190,845	190,845	190,845	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	190,845	190,845	278,089	
Fund Balances-Ending	\$ 195,675	\$ 69,519	\$ 231,849	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

Special Revenue Funds (continued)				
Community Dev Block Grant				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Revenues:				
Property taxes and special assessment				
Funding from other governmental agencies	\$ 152,000	\$ 152,000	\$ 176,677	\$ 24,677
Charges for current services				
Investment income and rentals	3,900	3,900	6,770	2,870
Fines, forfeitures, and other revenues			60	60
Total Revenues	155,900	155,900	183,507	27,607
Expenditures:				
Current:				
General Government				
Public Safety				
Community Development	195,769	463,742	295,053	168,689
Streets and Highways				
Parks and Recreation				
Other Public Services				
Capital outlay:				
Capital assets				
Construction Projects				
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	195,769	463,742	295,053	168,689
Excess (deficiency) of revenues over (under) expenditures	(39,869)	(307,842)	(111,546)	196,296
Other Financing Sources (Uses)				
Operating transfers in	782	782	-	(782)
Operating transfers (out)			(967)	(967)
Proceeds from long-term debt				
Total other financing sources (uses)	782	782	(967)	(1,749)
Net change in fund balance	(39,087)	(307,060)	(112,513)	194,547
Adjustments to budgetary basis			52,492	
Fund Balances-Beginning	636,136	636,136	636,136	
Reclassification of fund balance reserve to deferred revenue			(448,595)	
Adjusted Fund Balances - Beginning	636,136	636,136	240,033	
Fund Balances-Ending	\$ 597,049	\$ 329,076	\$ 127,520	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

	Special Revenue Funds (continued)			
	Asset Seizure			Variance with
	Budgeted Amounts		Actual	Final Budget
	Original	Final	Amounts	Positive
				(Negative)
<u>Revenues:</u>				
Property taxes and special assessment				
Funding from other governmental agencies				
Charges for current services				
Investment income and rentals	\$ 583	\$ 583	\$ 859	\$ 276
Fines, forfeitures, and other revenues			1	1
Total Revenues	583	583	860	277
<u>Expenditures:</u>				
Current:				
General Government				
Public Safety				
Community Development				
Streets and Highways				
Parks and Recreation				
Other Public Services				
Capital outlay:				
Capital assets				
Construction Projects				
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	583	583	860	277
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers (out)				
Proceeds from long-term debt				-
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	583	583	860	277
Adjustments to budgetary basis				
Fund Balances-Beginning	38,096	38,096	38,096	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	38,096	38,096	38,096	
Fund Balances-Ending	\$ 38,679	\$ 38,679	\$ 38,956	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

	Special Revenue Funds (continued)			
	Lighting and Landscape			Variance with
	Budgeted Amounts		Actual	Final Budget
	Original	Final	Amounts	Positive
				(Negative)
<u>Revenues:</u>				
Property taxes and special assessment	\$ 126,867	\$ 126,867	\$ 134,492	\$ 7,625
Funding from other governmental agencies				
Charges for current services				
Investment income and rentals	903	903		(903)
Fines, forfeitures, and other revenues				
Total Revenues	127,770	127,770	134,492	6,722
<u>Expenditures:</u>				
Current:				
General Government				
Public Safety				
Community Development				
Streets and Highways				
Parks and Recreation				
Other Public Services	154,755	167,001	169,431	(2,430)
Capital outlay:				
Capital assets				
Construction Projects				
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	154,755	167,001	169,431	(2,430)
Excess (deficiency) of revenues over (under) expenditures	(26,985)	(39,231)	(34,939)	9,152
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers (out)				
Proceeds from long-term debt				
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	(26,985)	(39,231)	(34,939)	9,152
Adjustments to budgetary basis				
Fund Balances-Beginning	33,766	33,766	33,766	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	33,766	33,766	33,766	
Fund Balances-Ending	\$ 6,781	\$ (5,465)	\$ (1,173)	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

	Special Revenue Funds (continued)			
	Environmental Programs			Variance with
	Budgeted Amounts		Actual	Final Budget
	Original	Final	Amounts	Positive
				(Negative)
<u>Revenues:</u>				
Property taxes and special assessment	\$ 320,000	\$ 320,000	\$ 338,353	\$ 18,353
Funding from other governmental agencies	9,806	9,806	19,496	9,690
Charges for current services				-
Investment income and rentals	12,403	12,403	13,050	647
Fines, forfeitures, and other revenues	45,000	45,000	83,391	38,391
Total Revenues	387,209	387,209	454,290	67,081
<u>Expenditures:</u>				
Current:				
General Government				
Public Safety				
Community Development				
Streets and Highways				
Parks and Recreation				
Other Public Services	352,029	399,894	310,286	89,608
Capital outlay:				
Capital assets				
Construction Projects				
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	352,029	399,894	310,286	89,608
Excess (deficiency) of revenues over (under) expenditures	35,180	(12,685)	144,004	156,689
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers (out)	(100,000)	(100,000)	(100,000)	-
Proceeds from long-term debt				
Total other financing sources (uses)	(100,000)	(100,000)	(100,000)	-
Net change in fund balance	(64,820)	(112,685)	44,004	156,689
Adjustments to budgetary basis			17,633	
Fund Balances-Beginning	613,697	613,697	613,697	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	613,697	613,697	631,330	
Fund Balances-Ending	\$ 548,877	\$ 501,012	\$ 675,334	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

	Special Revenue Funds (continued)			
	Housing Development			Variance with
	Budgeted Amounts		Actual	Final Budget
	Original	Final	Amounts	Positive
				(Negative)
<u>Revenues:</u>				
Property taxes and special assessment				
Funding from other governmental agencies				
Charges for current services	\$ 15,000	\$ 15,000	\$ 90,000	\$ 75,000
Investment income and rentals	19,672	19,672	29,230	9,558
Fines, forfeitures, and other revenues				
Total Revenues	34,672	34,672	119,230	84,558
<u>Expenditures:</u>				
Current:				
General Government				
Public Safety				
Community Development	1,047,797	1,047,797	23,600	1,024,197
Streets and Highways				
Parks and Recreation				
Other Public Services				
Capital outlay:				
Capital assets				
Construction Projects				
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	1,047,797	1,047,797	23,600	1,024,197
Excess (deficiency) of revenues over (under) expenditures	(1,013,125)	(1,013,125)	95,630	1,108,755
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers (out)				
Proceeds from long-term debt				
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	(1,013,125)	(1,013,125)	95,630	1,108,755
Adjustments to budgetary basis				
Fund Balances-Beginning	1,298,916	1,298,916	1,298,916	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	1,298,916	1,298,916	1,298,916	
Fund Balances-Ending	\$ 285,791	\$ 285,791	\$ 1,394,546	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

Special Revenue Funds (continued)				
Employee Assistance				Variance with
Budgeted Amounts		Actual	Variance with	
Original	Final	Amounts	Final Budget	Positive
			(Negative)	
<u>Revenues:</u>				
Property taxes and special assessment				
Funding from other governmental agencies				
Charges for current services				
Investment income and rentals	\$ 162	\$ 162	\$ 240	\$ 78
Fines, forfeitures, and other revenues	20,000	24,300	31,678	7,378
Total Revenues	20,162	24,462	31,918	7,456
<u>Expenditures:</u>				
Current:				
General Government	20,000	24,300	20,289	4,011
Public Safety				
Community Development				
Streets and Highways				
Parks and Recreation				
Other Public Services				
Capital outlay:				
Capital assets				
Construction Projects				
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	20,000	24,300	20,289	4,011
Excess (deficiency) of revenues over (under) expenditures	162	162	11,629	11,467
Other Financing Sources (Uses)				
Operating transfers in	60,000	60,000	60,000	-
Operating transfers (out)				
Proceeds from long-term debt				
Total other financing sources (uses)	60,000	60,000	60,000	-
Net change in fund balance	60,162	60,162	71,629	11,467
Adjustments to budgetary basis				
Fund Balances-Beginning	8,920	8,920	8,920	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	8,920	8,920	8,920	
Fund Balances-Ending	\$ 69,082	\$ 69,082	\$ 80,549	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

	Special Revenue Funds (continued)			
	Community Center			Variance with
	Budgeted Amounts		Actual	Final Budget
	Original	Final	Amounts	Positive
				(Negative)
<u>Revenues:</u>				
Property taxes and special assessment				
Funding from other governmental agencies				
Charges for current services				
Investment income and rentals	\$ 6,198	\$ 6,198	\$ 4,521	\$ (1,677)
Fines, forfeitures, and other revenues				
Total Revenues	6,198	6,198	4,521	(1,677)
<u>Expenditures:</u>				
Current:				
General Government				
Public Safety				
Community Development				
Streets and Highways				
Parks and Recreation				
Other Public Services				
Capital outlay:				
Capital assets				
Construction Projects				
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	6,198	6,198	4,521	(1,677)
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers (out)	(312,000)	(312,000)	(265,000)	(47,000)
Proceeds from long-term debt				
Total other financing sources (uses)	(312,000)	(312,000)	(265,000)	(47,000)
Net change in fund balance	(305,802)	(305,802)	(260,479)	(48,677)
Adjustments to budgetary basis				
Fund Balances-Beginning	360,157	360,157	360,157	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	360,157	360,157	360,157	
Fund Balances-Ending	\$ 54,355	\$ 54,355	\$ 99,678	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

	Special Revenue Funds (continued)			
	Environment Remediation			Variance with
	Budgeted Amounts		Actual	Final Budget
	Original	Final	Amounts	Positive
				(Negative)
<u>Revenues:</u>				
Property taxes and special assessment				
Funding from other governmental agencies				
Charges for current services				
Investment income and rentals				
Fines, forfeitures, and other revenues	\$ 570,000		\$ 570,000	\$ 570,000
Total Revenues	570,000	-	570,000	570,000
<u>Expenditures:</u>				
Current:				
General Government				
Public Safety				
Community Development				
Streets and Highways				
Parks and Recreation				
Other Public Services				
Capital outlay:				
Capital assets				
Construction Projects				
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	570,000	-	570,000	570,000
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers (out)	-	-	-	-
Proceeds from long-term debt				
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	570,000	-	570,000	570,000
Adjustments to budgetary basis				
Fund Balances-Beginning	-	-	-	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	-	-	-	
Fund Balances-Ending	\$ 570,000	\$ -	\$ 570,000	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

	Total Special Revenue Funds			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
<u>Revenues:</u>				
Property taxes and special assessment	\$ 446,867	\$ 446,867	\$ 472,845	\$ 25,978
Funding from other governmental agencies	915,206	915,206	961,689	46,483
Charges for current services	2,333,794	2,333,146	2,957,278	624,132
Investment income and rentals	75,929	76,577	134,551	57,974
Fines, forfeitures, and other revenues	637,700	72,000	1,393,094	1,321,094
Total Revenues	4,409,496	3,843,796	5,919,457	2,075,661
<u>Expenditures:</u>				
Current:				
General Government	20,000	24,300	20,289	4,011
Public Safety	582	582	582	-
Community Development	2,006,764	4,455,776	3,005,331	1,450,445
Streets and Highways	1,612,661	1,751,796	1,788,835	(37,039)
Parks and Recreation	1,640	1,640	2,247	(607)
Other Public Services	1,184,130	1,632,455	1,412,611	219,844
Capital outlay:				
Capital assets		9,292	8,913	379
Construction Projects	514,800	1,261,206	773,053	488,153
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	5,340,577	9,137,047	7,011,861	2,125,186
Excess (deficiency) of revenues over (under) expenditures	(931,081)	(5,293,251)	(1,092,404)	4,200,847
Other Financing Sources (Uses)				
Operating transfers in	790,834	1,157,102	1,157,287	(185)
Operating transfers (out)	(585,782)	(685,782)	(638,967)	(46,815)
Proceeds from long-term debt				
Total other financing sources (uses)	205,052	471,320	518,320	(47,000)
Net change in fund balance	(726,029)	(4,821,931)	(574,084)	4,247,847
Adjustments to budgetary basis			755,815	
Fund Balances-Beginning	4,353,268	6,911,825	6,911,825	
Reclassification of fund balance reserve to deferred revenue			(448,595)	
Adjusted Fund Balances - Beginning	4,353,268	6,911,825	7,219,045	
Fund Balances-Ending	\$ 3,627,239	\$ 2,089,894	\$ 6,644,961	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

	Debt Service Funds			
	Encino Hills			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
<u>Revenues:</u>				
Property taxes and special assessment				
Funding from other governmental agencies				
Charges for current services				
Investment income and rentals	\$ 1,631	\$ 1,631	\$ 1,527	\$ (104)
Fines, forfeitures, and other revenues				
Total Revenues	1,631	1,631	1,527	(104)
<u>Expenditures:</u>				
Current:				
General Government				
Public Safety				
Community Development				
Streets and Highways				
Parks and Recreation				
Other Public Services				
Capital outlay:				
Capital assets				
Construction Projects				
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	1,631	1,631	1,527	(104)
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers (out)			(69,554)	(69,554)
Proceeds from long-term debt				
Total other financing sources (uses)	-	-	(69,554)	(69,554)
Net change in fund balance	1,631	1,631	(68,027)	(69,658)
Adjustments to budgetary basis				
Fund Balances-Beginning	68,027	68,027	68,027	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	68,027	68,027	68,027	
Fund Balances-Ending	\$ 69,658	\$ 69,658	\$ -	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

Debt Service Funds (continued)				
Morgan Hill Business Park				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Revenues:				
Property taxes and special assessment				
Funding from other governmental agencies				
Charges for current services				
Investment income and rentals	\$ 447	\$ 447	\$ 266	\$ (181)
Fines, forfeitures, and other revenues				
Total Revenues	447	447	266	(181)
Expenditures:				
Current:				
General Government				
Public Safety				
Community Development				
Streets and Highways				
Parks and Recreation				
Other Public Services				
Capital outlay:				
Capital assets				
Construction Projects				
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	-	-	-	
Excess (deficiency) of revenues over (under) expenditures	447	447	266	(181)
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers (out)			(12,133)	(12,133)
Proceeds from long-term debt				
Total other financing sources (uses)	-	-	(12,133)	(12,133)
Net change in fund balance	447	447	(11,867)	(12,314)
Adjustments to budgetary basis				
Fund Balances-Beginning	11,867	11,867	11,867	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	11,867	11,867	11,867	
Fund Balances-Ending	\$ 12,314	\$ 12,314	\$ -	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

	Debt Service Funds (continued)			
	Sutter Business Park			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final	Amounts	
<u>Revenues:</u>				
Property taxes and special assessment				
Funding from other governmental agencies				
Charges for current services				
Investment income and rentals	\$ 730	\$ 730	\$ 560	\$ (170)
Fines, forfeitures, and other revenues				
Total Revenues	730	730	560	(170)
<u>Expenditures:</u>				
Current:				
General Government				
Public Safety				
Community Development				
Streets and Highways				
Parks and Recreation				
Other Public Services				
Capital outlay:				
Capital assets				
Construction Projects				
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	-	-		
Excess (deficiency) of revenues over (under) expenditures	730	730	560	(170)
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers (out)			(25,470)	(25,470)
Proceeds from long-term debt				
Total other financing sources (uses)	-	-	(25,470)	(25,470)
Net change in fund balance	730	730	(24,910)	(25,640)
Adjustments to budgetary basis				
Fund Balances-Beginning	24,910	24,910	24,910	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	24,910	24,910	24,910	
Fund Balances-Ending	\$ 25,640	\$ 25,640	\$ -	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

Debt Service Funds (continued)				
Cochrane Business Park				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues:</u>				
Property taxes and special assessment	\$ 116,073	\$ 116,073	\$ 189,798	\$ 73,725
Funding from other governmental agencies				
Charges for current services				
Investment income and rentals	3,814	3,814	6,430	2,616
Fines, forfeitures, and other revenues				
Total Revenues	119,887	119,887	196,228	76,341
<u>Expenditures:</u>				
Current:				
General Government				
Public Safety				
Community Development				
Streets and Highways				
Parks and Recreation				
Other Public Services				
Capital outlay:				
Capital assets				
Construction Projects				
Land Acquisition				
Debt service:				
Principal	95,000	95,000	95,000	-
Interest and fiscal charges	100,805	100,805	100,392	413
Total Expenditures	195,805	195,805	195,392	413
Excess (deficiency) of revenues over (under) expenditures	(75,918)	(75,918)	836	76,754
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers (out)				
Proceeds from long-term debt				
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	(75,918)	(75,918)	836	76,754
Adjustments to budgetary basis				
Fund Balances-Beginning	374,418	374,418	374,418	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	374,418	374,418	374,418	
Fund Balances-Ending	\$ 298,500	\$ 298,500	\$ 375,254	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

Debt Service Funds (continued)				
Joleen Way				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues:</u>				
Property taxes and special assessment	\$ 33,590	\$ 33,590	\$ 35,541	\$ 1,951
Funding from other governmental agencies				
Charges for current services				
Investment income and rentals	75	75	247	172
Fines, forfeitures, and other revenues	1,290	1,290		(1,290)
Total Revenues	34,955	34,955	35,788	833
<u>Expenditures:</u>				
Current:				
General Government				
Public Safety				
Community Development				
Streets and Highways				
Parks and Recreation				
Other Public Services				
Capital outlay:				
Capital assets				
Construction Projects				
Land Acquisition				
Debt service:				
Principal	20,000	20,000	20,000	-
Interest and fiscal charges	20,540	20,540	21,140	(600)
Total Expenditures	40,540	40,540	41,140	(600)
Excess (deficiency) of revenues over (under) expenditures	(5,585)	(5,585)	(5,352)	233
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers (out)				
Proceeds from long-term debt				
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	(5,585)	(5,585)	(5,352)	233
Adjustments to budgetary basis				
Fund Balances-Beginning	29,158	29,158	29,158	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	29,158	29,158	29,158	
Fund Balances-Ending	\$ 23,573	\$ 23,573	\$ 23,806	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

	Total Debt Service Funds			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
<u>Revenues:</u>				
Property taxes and special assessment	\$ 149,663	\$ 149,663	\$ 225,339	\$ 75,676
Funding from other governmental agencies	-	-		-
Charges for current services	-	-		-
Investment income and rentals	6,697	6,697	9,030	2,333
Fines, forfeitures, and other revenues	1,290	1,290	-	(1,290)
Total Revenues	157,650	157,650	234,369	76,719
		-		
<u>Expenditures:</u>				
Current:				
General Government				
Public Safety				
Community Development				
Streets and Highways				
Parks and Recreation				
Other Public Services				
Capital outlay:				
Capital assets				
Construction Projects				
Land Acquisition				
Debt service:				
Principal	115,000	115,000	115,000	-
Interest and fiscal charges	121,345	121,345	121,532	(187)
Total Expenditures	236,345	236,345	236,532	(187)
Excess (deficiency) of revenues over (under) expenditures	(78,695)	(78,695)	(2,163)	(76,906)
Other Financing Sources (Uses)				
Operating transfers in			-	-
Operating transfers (out)			(107,157)	(107,157)
Proceeds from long-term debt			-	-
Total other financing sources (uses)			(107,157)	(107,157)
Net change in fund balance	(78,695)	(78,695)	(109,320)	(184,063)
Adjustments to budgetary basis				
Fund Balances-Beginning	508,380	508,380	508,380	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	508,380	508,380	508,380	
Fund Balances-Ending	\$ 429,685	\$ 429,685	\$ 399,060	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

	Capital Project Funds			
	Park Capital Improvement			Variance with
	Budgeted Amounts		Actual	Final Budget
	Original	Final	Amounts	Positive
				(Negative)
<u>Revenues:</u>				
Property taxes and special assessment				
Funding from other governmental agencies				
Charges for current services	\$ 200,000	\$ 200,000	\$ 859,047	\$ 659,047
Investment income and rentals	53,072	53,072	79,198	26,126
Fines, forfeitures, and other revenues	182,000	182,000	56,365	(125,635)
Total Revenues	435,072	435,072	994,610	559,538
<u>Expenditures:</u>				
Current:				
General Government				
Public Safety				
Community Development				
Streets and Highways				
Parks and Recreation				
Other Public Services				
Capital outlay:				
Capital assets				
Construction Projects	1,570,296	2,114,454	422,465	1,691,989
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	1,570,296	2,114,454	422,465	1,691,989
Excess (deficiency) of revenues over (under) expenditures	(1,135,224)	(1,679,382)	572,145	2,251,527
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers (out)			(250,000)	(250,000)
Proceeds from long-term debt				
Total other financing sources (uses)	-	-	(250,000)	(250,000)
Net change in fund balance	(1,135,224)	(1,679,382)	322,145	2,001,527
Adjustments to budgetary basis			25,329	
Fund Balances-Beginning	3,191,630	3,191,630	3,191,630	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	3,191,630	3,191,630	3,216,959	
Fund Balances-Ending	\$ 2,056,406	\$ 1,512,248	\$ 3,539,104	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

Capital Project Funds (continued)				
Park Maintenance				Variance with
	Budgeted Amounts		Actual	Final Budget
	Original	Final	Amounts	Positive
				(Negative)
<u>Revenues:</u>				
Property taxes and special assessment				
Funding from other governmental agencies				
Charges for current services	\$ 150,000	\$ 150,000	\$ 243,224	\$ 93,224
Investment income and rentals	107,923	107,923	94,739	(13,184)
Fines, forfeitures, and other revenues				
Total Revenues	257,923	257,923	337,963	80,040
<u>Expenditures:</u>				
Current:				
General Government				
Public Safety				
Community Development				
Streets and Highways				
Parks and Recreation				
Other Public Services				
Capital outlay:				
Capital assets				
Construction Projects				
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	257,923	257,923	337,963	80,040
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers (out)	(200,000)	(200,000)	(200,000)	-
Proceeds from long-term debt				
Total other financing sources (uses)	(200,000)	(200,000)	(200,000)	-
Net change in fund balance	57,923	57,923	137,963	80,040
Adjustments to budgetary basis				
Fund Balances-Beginning	2,909,243	2,909,243	2,909,243	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	2,909,243	2,909,243	2,909,243	
Fund Balances-Ending	\$ 2,967,166	\$ 2,967,166	\$ 3,047,206	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

Capital Project Funds (continued)				
Storm Drains				Variance with Final Budget Positive Negative
Budgeted Amounts		Actual		
Original	Final	Amounts		
Revenues:				
Property taxes and special assessment				
Funding from other governmental agencies				
Charges for current services	\$ 278,000	\$ 278,000	\$ 183,135	\$ (94,865)
Investment income and rentals	120,406	120,406	151,418	31,012
Fines, forfeitures, and other revenues	50,000	50,000	47,000	(3,000)
Total Revenues	448,406	448,406	381,553	(66,853)
Expenditures:				
Current:				
General Government				
Public Safety				
Community Development				
Streets and Highways				
Parks and Recreation				
Other Public Services	103,881		103,881	(103,881)
Capital outlay:				
Capital assets				
Construction Projects	2,190,261	2,554,642	171,104	2,383,538
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	2,294,142	2,554,642	274,985	2,279,657
Excess (deficiency) of revenues over (under) expenditures	(1,845,736)	(2,106,236)	106,568	2,212,804
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers (out)	(30,000)	(30,000)	(30,000)	-
Proceeds from long-term debt				
Total other financing sources (uses)	(30,000)	(30,000)	(30,000)	-
Net change in fund balance	(1,875,736)	(2,136,236)	76,568	2,212,804
Adjustments to budgetary basis			13,070	
Fund Balances-Beginning	6,187,469	6,187,469	6,187,469	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	6,187,469	6,187,469	6,200,539	
Fund Balances-Ending	\$ 4,311,733	\$ 4,051,233	\$ 6,277,107	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

Capital Project Funds (continued)				
Off Street Parking				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Revenues:				
Property taxes and special assessment				
Funding from other governmental agencies				
Charges for current services				
Investment income and rentals	\$ 95	\$ 95	\$ 38	\$ (57)
Fines, forfeitures, and other revenues				
Total Revenues	95	95	38	(57)
Expenditures:				
Current:				
General Government				
Public Safety				
Community Development				
Streets and Highways				
Parks and Recreation				
Other Public Services				
Capital outlay:				
Capital assets				
Construction Projects				
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	95	95	38	(57)
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers (out)	(3,986)	(3,986)	(4,058)	(72)
Proceeds from long-term debt				
Total other financing sources (uses)	(3,986)	(3,986)	(4,058)	(72)
Net change in fund balance	(3,891)	(3,891)	(4,020)	(129)
Adjustments to budgetary basis				
Fund Balances-Beginning	4,020	4,020	4,020	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	4,020	4,020	4,020	
Fund Balances-Ending	\$ 129	\$ 129	\$ -	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

	Capital Project Funds (continued)			
	Open Space			Variance with
	Budgeted Amounts		Actual	Final Budget
	Original	Final	Amounts	Positive
				(Negative)
<u>Revenues:</u>				
Property taxes and special assessment				
Funding from other governmental agencies				
Charges for current services	\$ 50,000	\$ 50,000	\$ 228,103	\$ 178,103
Investment income and rentals	7,428	7,428	12,488	5,060
Fines, forfeitures, and other revenues				
Total Revenues	57,428	57,428	240,591	183,163
<u>Expenditures:</u>				
Current:				
General Government				
Public Safety				
Community Development				
Streets and Highways				
Parks and Recreation				
Other Public Services				
Capital outlay:				
Capital assets				
Construction Projects				
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	57,428	57,428	240,591	183,163
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers (out)				
Proceeds from long-term debt				
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	57,428	57,428	240,591	183,163
Adjustments to budgetary basis				
Fund Balances-Beginning	458,487	458,487	458,487	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	458,487	458,487	458,487	
Fund Balances-Ending	\$ 515,915	\$ 515,915	\$ 699,078	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

Capital Project Funds (continued)				
Traffic Mitigation				Variance with
	Budgeted Amounts		Actual	Final Budget
	Original	Final	Amounts	Positive
				(Negative)
<u>Revenues:</u>				
Property taxes and special assessment				
Funding from other governmental agencies				
Charges for current services	\$ 600,000	\$ 600,000	\$ 1,411,704	\$ (811,704)
Investment income and rentals	62,507	62,507	75,181	(12,674)
Fines, forfeitures, and other revenues			1,608	(1,608)
Total Revenues	662,507	662,507	1,488,493	(825,986)
<u>Expenditures:</u>				
Current:				
General Government				
Public Safety				
Community Development				
Streets and Highways				
Parks and Recreation				
Other Public Services				
Capital outlay:				
Capital assets				
Construction Projects	515,833	2,035,819	1,625,743	410,076
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	515,833	2,035,819	1,625,743	410,076
Excess (deficiency) of revenues over (under) expenditures	146,674	(1,373,312)	(137,250)	1,236,062
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers (out)				
Proceeds from long-term debt				
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	146,674	(1,373,312)	(137,250)	1,236,062
Adjustments to budgetary basis			430,879	
Fund Balances-Beginning	2,826,115	2,826,115	2,826,115	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	2,826,115	2,826,115	3,256,994	
Fund Balances-Ending	\$ 2,972,789	\$ 1,452,803	\$ 3,119,744	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

Capital Project Funds (continued)				
Police Mitigation				Variance with
Budgeted Amounts		Actual	Variance with	
Original	Final	Amounts	Final Budget	Positive
			(Negative)	
<u>Revenues:</u>				
Property taxes and special assessment				
Funding from other governmental agencies				
Charges for current services	\$ 38,000	\$ 38,000	\$ 98,647	\$ (60,647)
Investment income and rentals	13,569	13,569	27,257	(13,688)
Fines, forfeitures, and other revenues				
Total Revenues	51,569	51,569	125,904	(74,335)
<u>Expenditures:</u>				
Current:				
General Government				
Public Safety	6,645	26,645	35,579	(8,934)
Community Development				
Streets and Highways				
Parks and Recreation				
Other Public Services				
Capital outlay:				
Capital assets				
Construction Projects				
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	6,645	26,645	35,579	(8,934)
Excess (deficiency) of revenues over (under) expenditures	44,924	24,924	90,325	65,401
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers (out)	(1,200,000)	(1,200,000)	(1,200,000)	
Proceeds from long-term debt				
Total other financing sources (uses)	(1,200,000)	(1,200,000)	(1,200,000)	-
Net change in fund balance	(1,155,076)	(1,175,076)	(1,109,675)	65,401
Adjustments to budgetary basis			10,000	
Fund Balances-Beginning	1,183,045	1,183,045	1,183,045	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	1,183,045	1,183,045	1,193,045	
Fund Balances-Ending	\$ 27,969	\$ 7,969	\$ 83,370	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

	Capital Project Funds (continued)			
	Fire Mitigation			Variance with
	Budgeted Amounts		Actual	Final Budget
	Original	Final	Amounts	Positive
				(Negative)
<u>Revenues:</u>				
Property taxes and special assessment				
Funding from other governmental agencies				
Charges for current services	\$ 86,000	\$ 86,000	\$ 195,538	\$ (109,538)
Investment income and rentals	61,884	61,884	54,421	7,463
Fines, forfeitures, and other revenues				
Total Revenues	147,884	147,884	249,959	(102,075)
<u>Expenditures:</u>				
Current:				
General Government				-
Public Safety				-
Community Development				-
Streets and Highways				-
Parks and Recreation				-
Other Public Services				-
Capital outlay:				-
Capital assets				-
Construction Projects	1,545	151,545	22,384	129,161
Land Acquisition	400,000	400,000	506,966	(106,966)
Debt service:				-
Principal				-
Interest and fiscal charges				-
Total Expenditures	401,545	551,545	529,350	22,195
Excess (deficiency) of revenues over (under) expenditures	(253,661)	(403,661)	(279,391)	124,270
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers (out)				
Proceeds from long-term debt				
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	(253,661)	(403,661)	(279,391)	124,270
Adjustments to budgetary basis			9,101	
Fund Balances-Beginning	2,603,859	2,603,859	2,603,859	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	2,603,859	2,603,859	2,612,960	
Fund Balances-Ending	\$ 2,350,198	\$ 2,200,198	\$ 2,333,569	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

Capital Project Funds (continued)				
Public Facilities				Variance with
Budgeted Amounts		Actual	Variance with	
Original	Final	Amounts	Final Budget	Positive
			(Negative)	
<u>Revenues:</u>				
Property taxes and special assessment				
Funding from other governmental agencies				
Charges for current services	\$ 223,500	\$ 223,500	\$ 115,153	\$ 108,347
Investment income and rentals	43,277	43,277	43,682	(405)
Fines, forfeitures, and other revenues	8,456,000	8,456,000	1,892,000	6,564,000
Total Revenues	8,722,777	8,722,777	2,050,835	6,671,942
<u>Expenditures:</u>				
Current:				
General Government				
Public Safety				
Community Development				
Streets and Highways				
Parks and Recreation				
Other Public Services	1,528	70,335	354,013	(283,678)
Capital outlay:				
Capital assets			727,137	(727,137)
Construction Projects	10,637,701	4,333,380	2,206,582	2,126,798
Land Acquisition		6,401,562		6,401,562
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	10,639,229	10,805,277	3,287,732	7,517,545
Excess (deficiency) of revenues over (under) expenditures	(1,916,452)	(2,082,500)	(1,236,897)	845,603
Other Financing Sources (Uses)				
Operating transfers in	1,200,000	1,308,961	1,538,145	229,184
Operating transfers (out)			(1,613,466)	(1,613,466)
Proceeds from long-term debt				
Total other financing sources (uses)	1,200,000	1,308,961	(75,321)	(1,384,282)
Net change in fund balance	(716,452)	(773,539)	(1,312,218)	(538,679)
Adjustments to budgetary basis			565,119	
Fund Balances-Beginning	1,997,745	1,997,745	1,997,745	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	1,997,745	1,997,745	2,562,864	
Fund Balances-Ending	\$ 1,281,293	\$ 1,224,206	\$ 1,250,646	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

	Capital Project Funds (continued)			
	Library Mitigation			Variance with
	Budgeted Amounts		Actual	Final Budget
	Original	Final	Amounts	Positive
				(Negative)
<u>Revenues:</u>				
Property taxes and special assessment				
Funding from other governmental agencies				
Charges for current services	\$ 21,000	\$ 21,000	\$ 66,514	\$ (45,514)
Investment income and rentals	9,782	9,782	10,208	(426)
Fines, forfeitures, and other revenues				
Total Revenues	30,782	30,782	76,722	(45,940)
<u>Expenditures:</u>				
Current:				
General Government	225	225	225	
Public Safety				
Community Development				
Streets and Highways				
Parks and Recreation				
Other Public Services				
Capital outlay:				
Capital assets				
Construction Projects				
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	225	225	225	-
Excess (deficiency) of revenues over (under) expenditures	30,557	30,557	76,497	45,940
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers (out)				
Proceeds from long-term debt				
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	30,557	30,557	76,497	45,940
Adjustments to budgetary basis				
Fund Balances-Beginning	414,456	414,456	414,456	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	414,456	414,456	414,456	
Fund Balances-Ending	\$ 445,013	\$ 445,013	\$ 490,953	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

	Capital Project Funds (continued)			
	Under Grounding			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final	Amounts	
<u>Revenues:</u>				
Property taxes and special assessment				
Funding from other governmental agencies				
Charges for current services	\$ 10,000	\$ 10,000	\$ 68,577	\$ (58,577)
Investment income and rentals	21,495	21,495	27,573	(6,078)
Fines, forfeitures, and other revenues				
Total Revenues	31,495	31,495	96,150	(64,655)
<u>Expenditures:</u>				
Current:				
General Government				
Public Safety				
Community Development				
Streets and Highways				
Parks and Recreation				
Other Public Services				
Capital outlay:				
Capital assets				
Construction Projects	190,437	435,592	245,241	190,351
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	190,437	435,592	245,241	190,351
Excess (deficiency) of revenues over (under) expenditures	(158,942)	(404,097)	(149,091)	255,006
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers (out)				
Proceeds from long-term debt				
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	(158,942)	(404,097)	(149,091)	255,006
Adjustments to budgetary basis			31,897	
Fund Balances-Beginning	1,257,217	1,257,217	1,257,217	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	1,257,217	1,257,217	1,289,114	
Fund Balances-Ending	\$ 1,098,275	\$ 853,120	\$ 1,140,023	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

Capital Project Funds (continued)				
Morgan Hill Business Ranch				Variance with
	Budgeted Amounts		Actual	Final Budget
	Original	Final	Amounts	Positive
				(Negative)
<u>Revenues:</u>				
Property taxes and special assessment				
Funding from other governmental agencies				
Charges for current services				
Investment income and rentals	\$ 2,426	\$ 2,426	\$ 2,304	\$ 122
Fines, forfeitures, and other revenues				
Total Revenues	2,426	2,426	2,304	122
<u>Expenditures:</u>				
Current:				
General Government				
Public Safety				
Community Development				
Streets and Highways				
Parks and Recreation				
Other Public Services				
Capital outlay:				
Capital assets				
Construction Projects				
Land Acquisition				
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	2,426	2,426	2,304	(122)
Other Financing Sources (Uses)				
Operating transfers in				
Operating transfers (out)				
Proceeds from long-term debt				
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	2,426	2,426	2,304	(122)
Adjustments to budgetary basis				
Fund Balances-Beginning	102,522	102,522	102,522	
Reclassification of fund balance reserve to deferred revenue				
Adjusted Fund Balances - Beginning	102,522	102,522	102,522	
Fund Balances-Ending	\$ 104,948	\$ 104,948	\$ 104,826	

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

Capital Project Funds (continued)			
Community/Rec Center Impact Fund			
	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original	Final	
<u>Revenues:</u>			
Property taxes and special assessment			
Funding from other governmental agencies			
Charges for current services			\$ 18,802
Investment income and rentals			104
Fines, forfeitures, and other revenues			(18,802)
Total Revenues	-	-	18,906
<u>Expenditures:</u>			
Current:			
General Government			
Public Safety			
Community Development			
Streets and Highways			
Parks and Recreation			
Other Public Services			
Capital outlay:			
Capital assets			
Construction Projects			
Land Acquisition			
Debt service:			
Principal			
Interest and fiscal charges			
Total Expenditures	-	-	-
Excess (deficiency) of revenues over (under) expenditures	-	-	18,906
Other Financing Sources (Uses)			
Operating transfers in			
Operating transfers (out)			
Proceeds from long-term debt			
Total other financing sources (uses)	-	-	-
Net change in fund balance	-	-	18,906
Adjustments to budgetary basis			
Fund Balances-Beginning			
Reclassification of fund balance reserve to deferred revenue			
Adjusted Fund Balances - Beginning	-	-	-
Fund Balances-Ending	\$ -	\$ -	\$ 18,906

City of Morgan Hill
Schedule of Revenues, Expenditures and
Change in Fund Balances-Budget and Actual
Non Major Governmental Funds
For the Year ended June 30, 2004

Capital Project Funds (continued)				
Total Capital Projects				Variance with
	Budgeted Amounts		Actual	Final Budget
	Original	Final	Amounts	Positive
				(Negative)
<u>Revenues:</u>				
Property taxes and special assessment	-	-	-	-
Funding from other governmental agencies	-	-	-	-
Charges for current services	1,656,500	1,656,500	3,488,444	(160,926)
Investment income and rentals	503,864	503,864	578,611	23,167
Fines, forfeitures, and other revenues	8,688,000	8,688,000	1,996,973	6,433,757
Total Revenues	10,848,364	10,848,364	6,064,028	6,295,998
<u>Expenditures:</u>				
Current:				
General Government	225	225	225	
Public Safety	6,645	26,645	35,579	(8,934)
Community Development				
Streets and Highways				
Parks and Recreation				
Other Public Services	105,409	70,335	457,894	(387,559)
Capital outlay:				
Capital assets			727,137	(727,137)
Construction Projects	15,106,073	11,625,432	4,693,519	6,931,913
Land Acquisition	400,000	6,801,562	506,966	6,294,596
Debt service:				
Principal				
Interest and fiscal charges				
Total Expenditures	15,618,352	18,524,199	6,421,320	12,102,879
Excess (deficiency) of revenues over (under) expenditures	(4,769,988)	(7,675,835)	(357,292)	5,806,881
Other Financing Sources (Uses)				
Operating transfers in	1,200,000	1,308,961	1,538,145	(229,184)
Operating transfers (out)	(1,433,986)	(1,433,986)	(3,297,524)	1,863,538
Proceeds from long-term debt	-	-	-	-
Total other financing sources (uses)	(233,986)	(125,025)	(1,759,379)	1,634,354
Net change in fund balance	(5,003,974)	(7,800,860)	(2,116,671)	4,172,527
Adjustments to budgetary basis	-	-	1,085,395	
Fund Balances-Beginning	23,135,808	23,135,808	23,135,808	
Reclassification of fund balance reserve to deferred revenue	-	-	-	
Adjusted Fund Balances - Beginning	23,135,808	23,135,808	24,221,203	
Fund Balances-Ending	\$ 18,131,834	\$ 15,334,948	\$ 22,104,532	

Internal Service Description



City of Morgan Hill
Internal Service Funds
Combining Statement of Net Assets
For the Year Ended June 30, 2004

	<u>Building Maintenance</u>	<u>Information Systems</u>	<u>Unemployment Insurance</u>	<u>Worker's Compensation</u>
<u>Assets:</u>				
Current assets				
Pooled cash and investment	\$ 779,001	\$ 453,875	\$ 47,278	\$ 760,011
Restricted pooled cash and investments				40,000
Receivables:				
Accrued interest				
Other accounts receivable				31,896
Prepaid expenses				
Total current assets	<u>779,001</u>	<u>453,875</u>	<u>47,278</u>	<u>831,907</u>
Noncurrent assets				
Fixed assets, net	-	32,466		
Total noncurrent assets	<u>-</u>	<u>32,466</u>	<u>-</u>	<u>-</u>
Total Assets	<u>779,001</u>	<u>486,341</u>	<u>47,278</u>	<u>831,907</u>
<u>Liabilities:</u>				
Current liabilities				
Accounts payable	21,741	13,906		87,694
Accrued liabilities	5,959			738,579
Due to other funds				
Deferred revenue				
Current obligations for:				
Compensated absences	1,138			
Total current liabilities	<u>28,838</u>	<u>13,906</u>	<u>-</u>	<u>826,273</u>
Noncurrent liabilities				
Long term obligations for:				
Compensated absences	23,765			
Total noncurrent liabilities	<u>23,765</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>52,603</u>	<u>13,906</u>	<u>-</u>	<u>826,273</u>
<u>Net Assets:</u>				
Invested in capital assets		32,466		
Unrestricted	726,398	439,969	47,278	5,634
Total Net Assets	<u>\$ 726,398</u>	<u>\$ 472,435</u>	<u>\$ 47,278</u>	<u>\$ 5,634</u>

City of Morgan Hill
Internal Service Funds
Combining Statement of Net Assets
For the Year Ended June 30, 2004

	<u>General Liability</u>	<u>Equipment Replacement</u>	<u>CIP Administration</u>	<u>Total</u>
<u>Assets:</u>				
Current assets				
Pooled cash and investment	\$ 996,978	\$ 3,030,415	\$ 168,817	\$ 6,236,375
Restricted pooled cash and investments				40,000
Receivables:				
Accrued interest	3,913	10,376		14,289
Other accounts receivable			11,218	43,114
Prepaid expenses				
Total current assets	<u>1,000,891</u>	<u>3,040,791</u>	<u>180,035</u>	<u>6,333,778</u>
Noncurrent assets				
Fixed assets, net		543,401	1,031	576,898
Total noncurrent assets	<u>-</u>	<u>543,401</u>	<u>1,031</u>	<u>576,898</u>
Total Assets	<u>1,000,891</u>	<u>3,584,192</u>	<u>181,066</u>	<u>6,910,676</u>
<u>Liabilities:</u>				
Current liabilities				
Accounts payable	49,906	208,564	58,133	439,944
Accrued liabilities	140,283		22,329	907,150
Due to other funds				
Deferred revenue				
Current obligations for:				
Compensated absences			4,737	5,875
Total current liabilities	<u>190,189</u>	<u>208,564</u>	<u>85,199</u>	<u>1,352,969</u>
Noncurrent liabilities				
Long term obligations for:				
Compensated absences			43,213	66,978
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>43,213</u>	<u>66,978</u>
Total Liabilities	<u>190,189</u>	<u>208,564</u>	<u>128,412</u>	<u>1,419,947</u>
<u>Net Assets:</u>				
Invested in capital assets		543,401	1,031	576,898
Unrestricted	810,702	2,832,227	51,623	4,913,831
Total Net Assets	<u>\$ 810,702</u>	<u>\$ 3,375,628</u>	<u>\$ 52,654</u>	<u>\$ 5,490,729</u>

City of Morgan Hill
Internal Service Funds
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended June 30, 2004

	Building Maintenance	Information Systems	Unemployment Insurance	Workers' Compensation
<u>Operating Revenues:</u>				
Charges for current services	\$ 841,804	\$ 226,788	\$ 39,650	\$ 789,673
Supplemental rent from operations				
Other operating income	1,452			
Total Operating Revenues	<u>843,256</u>	<u>226,788</u>	<u>39,650</u>	<u>789,673</u>
<u>Operating Expenses:</u>				
Salaries and benefits	169,252			
Claims and insurance premiums			39,650	727,219
Operations and maintenance	284,080	194,385		62,967
Depreciation	2,694	28,378		
Administrative charges	6,983	3,136		
Total Operating expenses	<u>463,009</u>	<u>225,899</u>	<u>39,650</u>	<u>790,186</u>
Operating Income	<u>380,247</u>	<u>889</u>	<u>-</u>	<u>(513)</u>
<u>Nonoperating revenues(expense):</u>				
Investment earnings				
Interest (expense)				
Total nonoperating revenue (expense)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income (loss) before operating transfers	380,247	889	-	(513)
Transfers in		35,520		
Transfers (out)	<u>(54,000)</u>			
Change in net assets	326,247	36,409	-	(513)
Total net assets-beginning	<u>400,151</u>	<u>436,026</u>	<u>47,278</u>	<u>6,147</u>
Total net assets-ending	<u>\$ 726,398</u>	<u>\$ 472,435</u>	<u>\$ 47,278</u>	<u>\$ 5,634</u>

City of Morgan Hill
Internal Service Funds
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
For the Year Ended June 30, 2004

	General Liability	Equipment Replacement	CIP Administration	Total
<u>Operating Revenues:</u>				
Charges for current services	\$ 371,602	\$ 203,747	\$ 1,340,256	\$ 3,813,520
Supplemental rent from operations				
Other operating income		16,263	235	17,950
Total Operating Revenues	<u>371,602</u>	<u>220,010</u>	<u>1,340,491</u>	<u>3,831,470</u>
<u>Operating Expenses:</u>				
Salaries and benefits			1,025,668	1,194,920
Claims and insurance premiums	441,515			1,208,384
Operations and maintenance		2,993	162,308	706,733
Depreciation		258,200	19,720	308,992
Administrative charges	2	1,761	139,577	151,459
Total Operating expenses	<u>441,517</u>	<u>262,954</u>	<u>1,347,273</u>	<u>3,570,488</u>
Operating Income	<u>(69,915)</u>	<u>(42,944)</u>	<u>(6,782)</u>	<u>260,982</u>
<u>Nonoperating revenues(expense):</u>				
Investment earnings	23,949	38,601		62,550
Interest (expense)				
Total nonoperating revenue (expense)	<u>23,949</u>	<u>38,601</u>	<u>-</u>	<u>62,550</u>
Income (loss) before operating transfers	<u>(45,966)</u>	<u>(4,343)</u>	<u>(6,782)</u>	<u>323,532</u>
Transfers in				35,520
Transfers (out)				<u>(54,000)</u>
Change in net assets	<u>(45,966)</u>	<u>(4,343)</u>	<u>(6,782)</u>	<u>305,052</u>
Total net assets-beginning	<u>856,668</u>	<u>3,379,971</u>	<u>59,436</u>	<u>5,185,677</u>
Total net assets-ending	<u>\$ 810,702</u>	<u>\$ 3,375,628</u>	<u>\$ 52,654</u>	<u>\$ 5,490,729</u>

City of Morgan Hill
Internal Service Funds
Combining Statement of Cash Flows
For the Year Ended June 30, 2004

	<u>Building Maintenance</u>	<u>Information Systems</u>	<u>Unemployment Insurance</u>	<u>Worker's Compensation</u>
Cash Flows From Operating Activities				
Receipts from customers and users	\$ 843,256	\$ 226,788	\$ 39,650	\$ 768,704
Payment for supplies and services	(282,190)	(186,000)	(39,650)	(613,983)
Payments to employees	(154,305)			
Payments for interfund services	(6,983)	(3,136)		
Net cash provided by operating activities	<u>399,778</u>	<u>37,652</u>	<u>-</u>	<u>154,721</u>
Cash Flows from NonCapital Financing Activities				
Transfers (to)/from other funds	(54,000)	35,520		
Net Cash provided by noncapital financing activities	<u>(54,000)</u>	<u>35,520</u>		
Cash Flows from Capital and Related Financing Activities				
Capital Contributions				
Purchases of capital assets		(8,783)		
Net cash used by capital and related financing activities	<u>-</u>	<u>(8,783)</u>		
Cash Flows from Investing Activities				
Interest Earnings				
Net cash used by investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Increase in cash and equivalents	345,778	64,389	-	154,721
Cash and equivalents at July 1, 2003	433,223	389,486	47,278	645,290
Cash and equivalents at June 30, 2004	<u>\$ 779,001</u>	<u>\$ 453,875</u>	<u>47,278</u>	<u>\$ 800,011</u>
Reconciliation of operating income to net cash provided by operating activities				
Operating Income	380,247	889		(513)
Adjustments to reconcile operating income to net cash provided(used) by operating activities:				
Depreciation Expense	2,694	28,378		
(Increase) in Receivables				(20,969)
Increase (decrease) in accounts payable	1,890	8,385		176,203
Increase in compensated absences	14,947			
Total adjustments	<u>19,531</u>	<u>36,763</u>	<u>-</u>	<u>155,234</u>
Net cash provided by operating activities	<u>\$ 399,778</u>	<u>\$ 37,652</u>	<u>\$ -</u>	<u>\$ 154,721</u>

City of Morgan Hill
Internal Service Funds
Combining Statement of Cash Flows
For the Year Ended June 30, 2004

	<u>General Liability</u>	<u>Equipment Replacement</u>	<u>CIP Administration</u>	<u>Total</u>
Cash Flows From Operating Activities				
Receipts from customers and users	\$ 371,602	\$ 220,010	\$ 1,329,273	\$ 3,799,283
Payment for supplies and services	(579,243)	196,494	(108,010)	(1,612,582)
Payments to employees		-	(1,021,525)	(1,175,830)
Payments for interfund services	(2)	(1,761)	(139,577)	(151,459)
Net cash provided by operating activities	<u>(207,643)</u>	<u>414,743</u>	<u>60,161</u>	<u>859,412</u>
Cash Flows from NonCapital Financing Activities				
Transfers (to)/from other funds				(18,480)
Net Cash provided by noncapital financing activities				<u>(18,480)</u>
Cash Flows from Capital and Related Financing Activities				
Capital Contributions				-
Purchases of capital assets		(247,568)	(2,474)	(258,825)
Net cash used by capital and related financing activities		<u>(247,568)</u>	<u>(2,474)</u>	<u>(258,825)</u>
Cash Flows from Investing Activities				
Interest Earnings	25,537	42,935		68,472
Net cash used by investing activities	<u>25,537</u>	<u>42,935</u>	<u>-</u>	<u>68,472</u>
Net Increase in cash and equivalents	(182,106)	210,110	57,687	650,579
Cash and equivalents at July 1, 2003	1,179,084	2,820,305	111,130	5,625,796
Cash and equivalents at June 30, 2004	<u>\$ 996,978</u>	<u>\$ 3,030,415</u>	<u>\$ 168,817</u>	<u>\$ 6,276,375</u>
Reconciliation of operating income to net cash provided by operating activities				
Operating Income	(69,915)	(42,944)	(6,782)	260,982
Adjustments to reconcile operating income to net cash provided(used) by operating activities:				
Depreciation Expense		258,200	19,720	308,992
(Increase) in Receivables			(11,218)	(32,187)
Increase (decrease) in accounts payable	(137,728)	199,487	54,298	302,535
Increase in compensated absences			4,143	19,090
Total adjustments	<u>(137,728)</u>	<u>457,687</u>	<u>66,943</u>	<u>598,430</u>
Net cash provided by operating activities	<u>\$ (207,643)</u>	<u>\$ 414,743</u>	<u>\$ 60,161</u>	<u>\$ 859,412</u>

Agency Funds Description



City of Morgan Hill
Statement of Changes in Assets and Liabilities
Fiduciary Funds
For the Year Ended June 30, 2004

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2004</u>
<u>Special Deposits</u>				
<u>Assets:</u>				
Restricted pooled cash and investments	\$ 800,572	\$ 619,735	\$ 376,902	\$ 1,043,405
Accounts receivable	4,448	4,785	5,505	3,728
Total Assets	805,020	624,520	382,407	1,047,133
<u>Liabilities</u>				
Accounts payable	96,548	349,737	336,555	109,730
Customer and other deposits	708,472	274,783	45,852	937,403
Total liabilities	805,020	624,520	382,407	1,047,133
<u>Morgan Hill Business Ranch A.D.</u>				
<u>Assets:</u>				
Restricted pooled cash and investments	2,329,955	838,444	2,359,848	808,551
Cash with fiscal agents	886,904	823,365	638,065	1,072,204
Accounts receivable	32,860	19,175	35,215	16,820
Total Assets	3,249,719	1,680,984	3,033,128	1,897,575
<u>Liabilities</u>				
Customer and other deposits	3,249,719	1,680,984	3,033,128	1,897,575
Total liabilities	3,249,719	1,680,984	3,033,128	1,897,575
<u>Tennant Business Park A.D.</u>				
<u>Assets:</u>				
Restricted pooled cash and investments	358,501	487,964	417,658	428,807
Accounts receivable	2,418	1,479	2,418	1,479
Total Assets	360,919	489,443	420,076	430,286
<u>Liabilities</u>				
Customer and other deposits	360,919	489,443	420,076	430,286
Total liabilities	360,919	489,443	420,076	430,286
<u>Madrone Business Park A.D.</u>				
<u>Assets:</u>				
Restricted pooled cash and investments	613,425	961,431	978,740	596,116
Cash with fiscal agent	954,519	4,416	5,493	953,442
Accounts receivable	1,254	934	1,255	933
Total Assets	1,569,198	966,781	985,488	1,550,491
<u>Liabilities</u>				
Customer and other deposits	1,569,198	966,781	985,488	1,550,491
Total liabilities	1,569,198	966,781	985,488	1,550,491
<u>Total Agency Funds</u>				
<u>Assets:</u>				
Restricted pooled cash and investments	\$ 4,102,453	\$ 2,907,574	\$ 4,133,148	\$ 2,876,879
Cash with fiscal agents	1,841,423	827,781	643,558	2,025,646
Accounts receivable	40,980	26,373	44,393	22,960
Total Assets	\$ 5,984,856	\$ 3,761,728	\$ 4,821,099	\$ 4,925,485
<u>Liabilities</u>				
Accounts payable	96,548	349,737	336,555	109,730
Customer and other deposits	5,888,308	3,411,991	4,484,544	4,815,755
Total liabilities	\$ 5,984,856	\$ 3,761,728	\$ 4,821,099	\$ 4,925,485

City of Morgan Hill
Capital Assets Used in the Operation of Governmental Funds
Comparative Schedules by Source
June 30, 2004

	2004	2003
<u>Governmental Funds capital assets:</u>		
Land	\$ 28,304,460	\$ 23,560,224
Buildings and Improvements	41,461,491	22,438,616
Machinery, Equipment and Vehicles	337,161	622,947
Infrastructure	10,281,978	6,592,963
Construction in Progress	6,698,509	5,082,477
Total Governmental Funds Capital Assets	<u>\$ 87,083,599</u>	<u>\$ 58,297,227</u>
<u>Investments in Governmental Capital Assets by Source:</u>		
Administration	\$ 1,313,745	\$ 1,371,625
Community Development	55,331	86,836
Redevelopment Agency	45,265,636	22,821,013
Public Works	12,841,427	8,374,875
Public Safety	3,355,755	837,632
Parks and Recreation	24,251,705	24,805,246
Total Governmental Funds Capital Assets	<u>\$ 87,083,599</u>	<u>\$ 58,297,227</u>

City of Morgan Hill

Capital Assets Used in the Operation of Government Funds

Schedule by Function and Activity

For the fiscal year ended June 30, 2004

<u>Function and Activity</u>	<u>Land</u>	<u>Buildings & Other Improvements</u>	<u>Machinery, Equipment and Vehicles</u>	<u>Infra- Structure</u>	<u>Construction in Progress</u>	<u>Total</u>
General Government						
Administration	\$ 545,070	\$ 1,285,749	\$ 457,297	\$ -	\$ -	\$ 2,288,116
Community Development		17,935	427,809			445,744
Redevelopment Agency	20,190,080	24,317,615	134,831		2,184,300	46,826,826
Public Works	589,281	624,965	533,319	10,542,808	1,336,521	13,626,894
Public Safety	243,014	706,051	680,917		2,703,848	4,333,830
Parks and Recreation	6,737,015	18,363,059	100,538		473,840	25,674,452
Total Governmental Capital Assets	28,304,460	45,315,373	2,334,713	10,542,808	6,698,509	93,195,863
Less Accumulated Depreciation	-	(3,853,882)	(1,997,552)	(260,830)	-	(6,112,265)
Capital Assets, Net	<u>\$ 28,304,460</u>	<u>\$ 41,461,491</u>	<u>\$ 337,161</u>	<u>\$ 10,281,978</u>	<u>\$ 6,698,509</u>	<u>\$ 87,083,599</u>

City of Morgan Hill
Capital Assets Used in the Operation of Government Funds
Schedule of Changes by Function and Activity
For the fiscal year ended June 30, 2004

<u>Function and Activity</u>	Governmental Funds Capital Assets July 1, 2003	Additions	Deductions/ Transfers	Accumulated Depreciation	Governmental Funds Capital Assets, Net June 30, 2004
General Government					
Administration	\$ 2,301,167	\$ -	\$ (13,051)	\$ (974,371)	\$ 1,313,745
Community Development	467,708	1,237	(23,201)	(390,413)	55,331
Redevelopment Agency	28,289,052	19,989,252	(1,451,477)	(1,561,191)	45,265,636
Public Works	9,250,230	10,410,305	(6,033,640)	(785,468)	12,841,427
Public Safety	1,703,424	2,518,615	111,791	(978,075)	3,355,755
Parks and Recreation	25,902,979	758,441	(986,969)	(1,422,746)	24,251,705
Total General Government	\$ 67,914,560	\$ 33,677,850	\$ (8,396,546)	\$ (6,112,265)	\$ 87,083,599

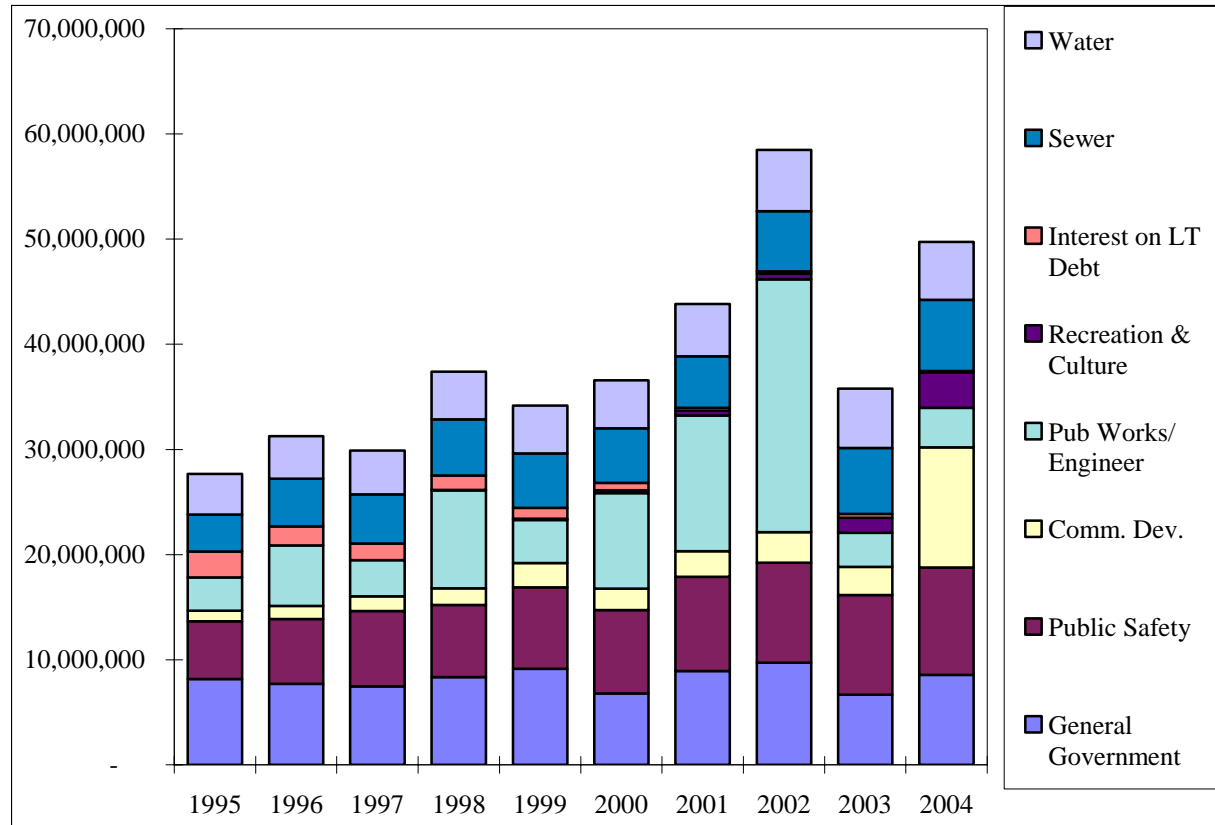


Statistical Section



City of Morgan Hill, California

Government-Wide Expenses by Function - Last Ten Fiscal Years



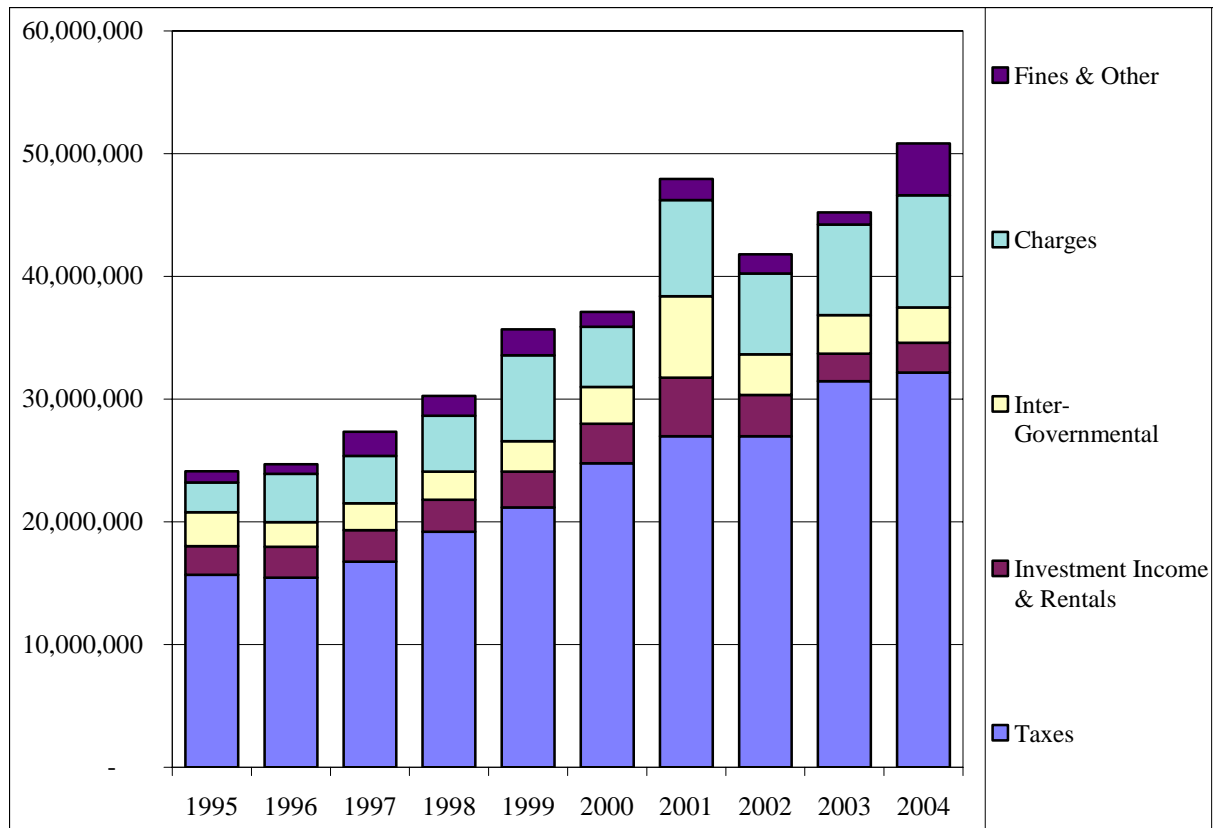
Fiscal Year	General Government	Public Safety	Comm. Dev.	Pub Works/Engineer	Recreation & Culture	Interest on LT Debt	Sewer	Water	Total
1995	8,172,798	5,469,083	1,018,663	3,181,502		2,456,590	3,487,313	3,884,026	27,669,975
1996	7,707,236	6,151,726	1,249,785	5,753,351		1,800,977	4,551,430	4,051,605	31,266,110
1997	7,478,469	7,148,700	1,392,931	3,461,513		1,578,185	4,650,263	4,181,335	29,891,396
1998	8,344,919	6,850,677	1,607,566	9,324,387	23,162	1,371,630	5,316,732	4,556,646	37,395,719
1999	9,144,887	7,723,173	2,341,091	4,078,308	109,758	1,033,017	5,194,941	4,549,253	34,174,428
2000	6,786,810	7,930,897	2,055,704	9,081,036	248,874	709,910	5,191,182	4,551,540	36,555,953
2001	8,914,097	8,977,870	2,430,755	12,904,485	446,043	264,626	4,914,214	4,965,719	43,817,809
2002	9,724,585	9,507,553	2,894,041	24,043,161	555,522	201,795	5,730,600	5,821,290	58,478,547
2003	6,684,625	9,467,613	2,678,838	3,231,907	1,440,595	372,209	6,274,448	5,641,739	35,791,974
2004	8,560,110	10,221,986	11,425,408	3,754,817	3,358,632	121,532	6,767,764	5,512,709	49,722,958

Note: Implementation of GASB 34 causes current year data to not be comparable to prior years. Prior years data includes capital outlay.

Source: City of Morgan Hill Annual Financial Reports

City of Morgan Hill, California

General Governmental Revenues by Source - Last Ten Fiscal Years

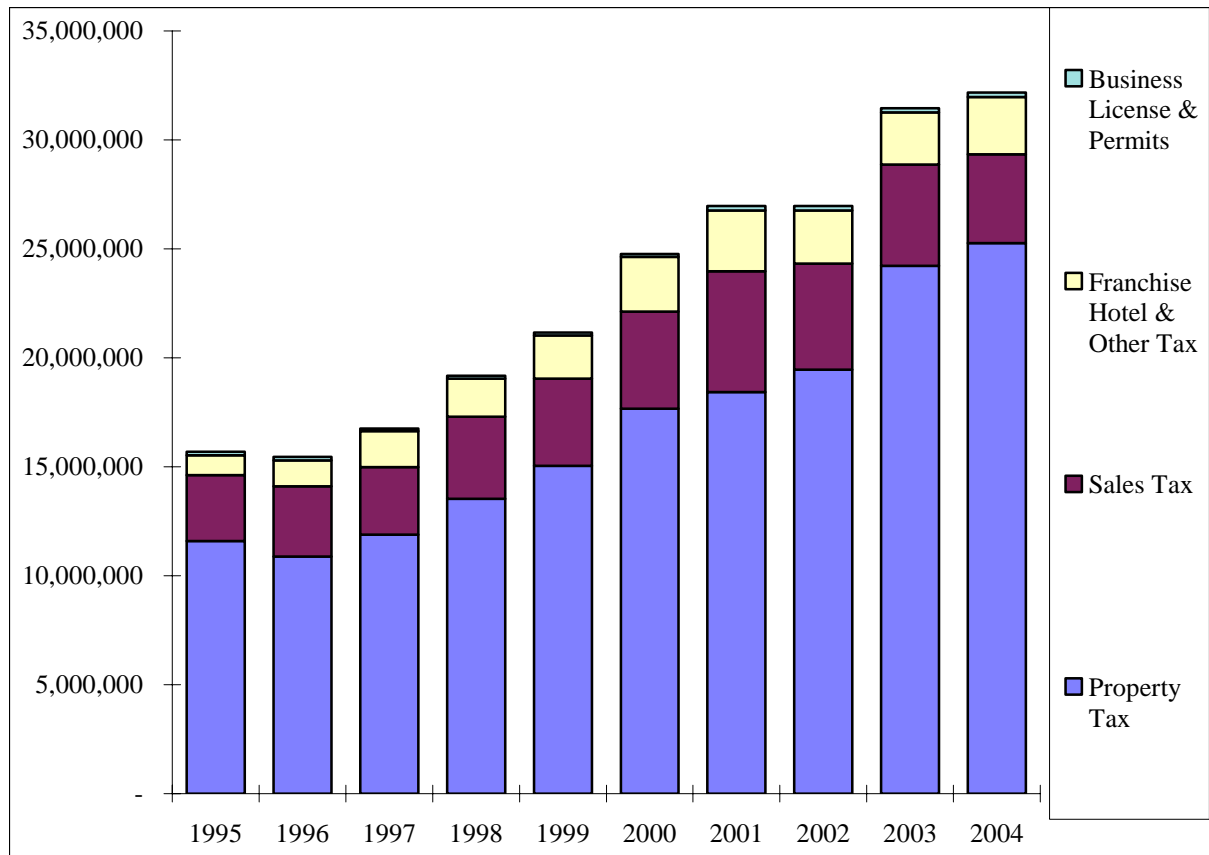


Fiscal Year	Taxes	Investment Income & Rentals	Inter- Governmental	Charges	Fines & Other	Totals
1995	15,684,391	2,335,909	2,754,175	2,428,428	922,253	24,125,156
1996	15,448,796	2,518,401	2,010,451	3,942,559	785,461	24,705,668
1997	16,749,753	2,564,214	2,201,724	3,875,789	1,938,414	27,329,894
1998	19,180,764	2,615,452	2,297,996	4,538,601	1,631,889	30,264,702
1999	21,167,161	2,942,956	2,471,349	6,995,169	2,116,486	35,693,121
2000	24,770,915	3,223,934	3,000,557	4,899,156	1,217,662	37,112,224
2001	26,968,090	4,779,827	6,628,611	7,831,911	1,718,814	47,927,253
2002	26,973,648	3,376,460	3,316,144	6,557,964	1,576,857	41,801,073
2003	31,461,119	2,244,758	3,140,343	7,389,742	978,357	45,214,319
2004	32,172,025	2,411,452	2,877,404	9,133,922	4,239,957	50,834,760

Source: City of Morgan Hill Annual Financial Reports

City of Morgan Hill, California

General Governmental Tax Revenues by Source - Last Ten Fiscal Years

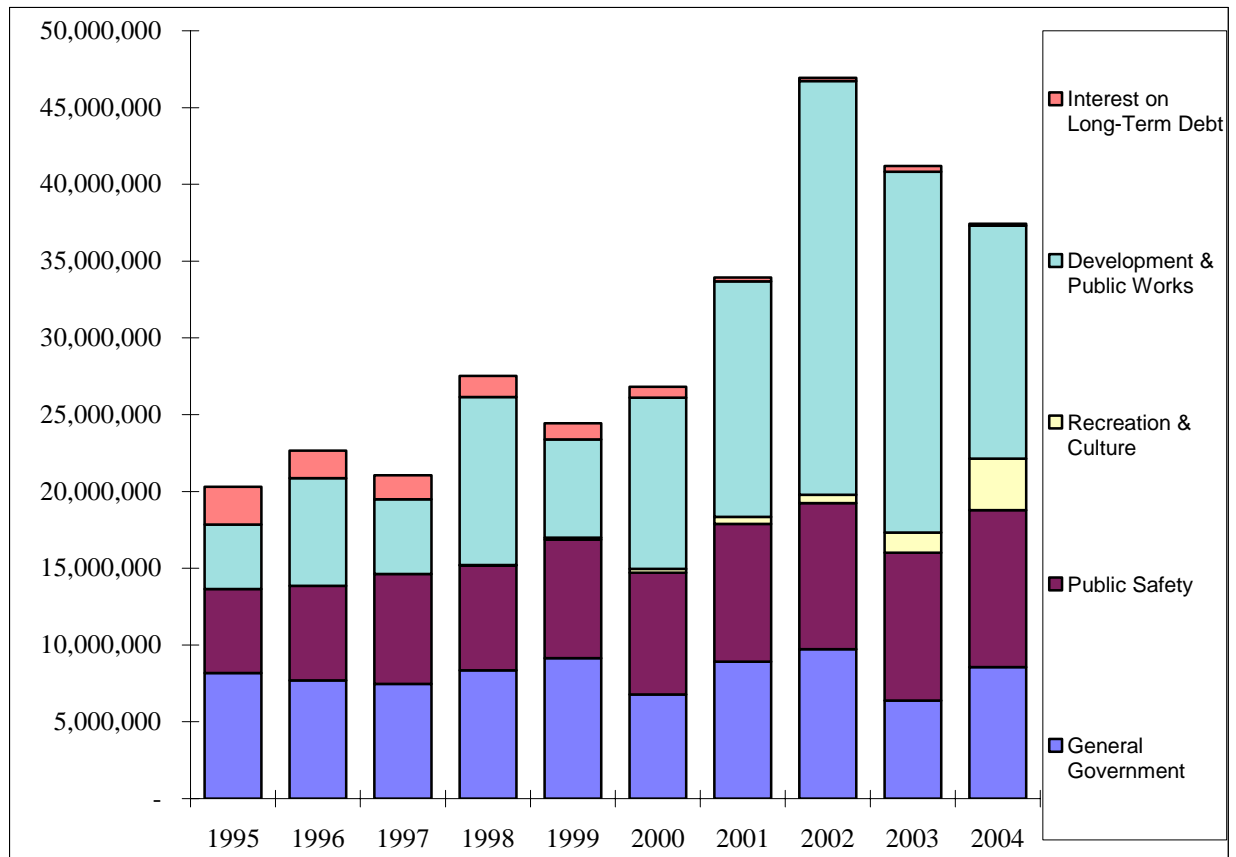


Fiscal Year	Property Tax	Sales Tax	Franchise Hotel & Other Tax	Business License & Permits	Totals
1995	11,584,064	3,028,094	923,748	148,485	15,684,391
1996	10,889,489	3,213,586	1,193,623	152,098	15,448,796
1997	11,885,844	3,104,685	1,636,140	123,084	16,749,753
1998	13,533,222	3,762,371	1,748,706	136,465	19,180,764
1999	15,049,473	3,990,716	1,994,321	132,651	21,167,161
2000	17,655,775	4,454,774	2,525,798	134,568	24,770,915
2001	18,431,805	5,532,132	2,803,261	200,892	26,968,090
2002	19,454,298	4,870,295	2,443,461	205,594	26,973,648
2003	24,226,642	4,636,927	2,401,341	196,209	31,461,119
2004	25,270,607	4,070,030	2,628,604	202,784	32,172,025

Source: City of Morgan Hill Annual Financial Reports

City of Morgan Hill, California

General Governmental Expenditures by Function - Last Ten Fiscal Years

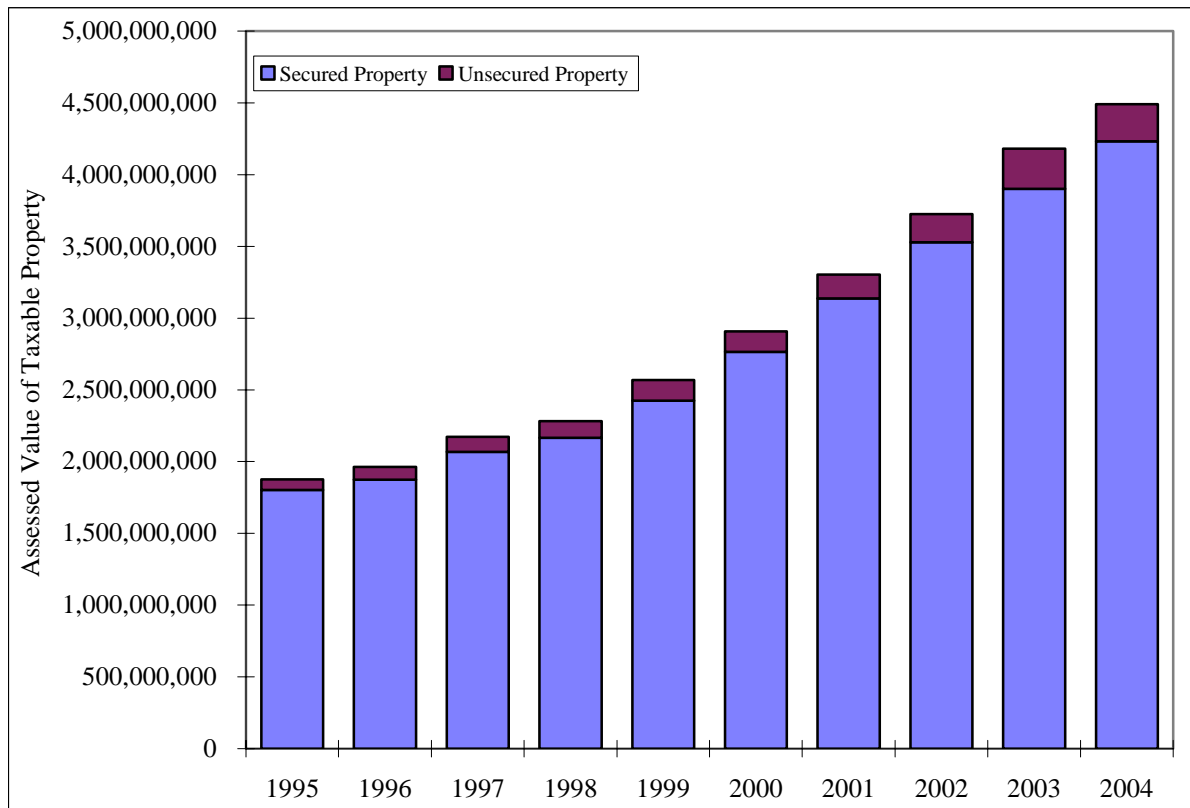


Fiscal Year	General Government	Public Safety	Recreation & Culture	Development & Public Works	Interest on Long-Term Debt	Total
1995	8,172,798	5,469,083	-	4,200,165	2,456,590	20,298,636
1996	7,707,236	6,151,726	-	7,003,136	1,800,977	22,663,075
1997	7,478,469	7,148,700	-	4,854,444	1,578,185	21,059,798
1998	8,344,919	6,850,677	23,162	10,931,953	1,371,630	27,522,341
1999	9,144,887	7,723,173	109,758	6,419,399	1,033,017	24,430,234
2000	6,786,810	7,930,897	248,874	11,136,740	709,910	26,813,231
2001	8,914,097	8,977,870	446,043	15,335,240	264,626	33,937,876
2002	9,724,585	9,507,553	555,522	26,937,202	201,795	46,926,657
2003	6,390,674	9,611,260	1,317,059	23,502,545	372,209	41,193,747
2004	8,560,110	10,221,986	3,358,632	15,180,225	121,532	37,442,485

Source: City of Morgan Hill Annual Financial Reports

City of Morgan Hill, California

Assessed and Estimated Actual Value of Taxable Property - Last Ten Fiscal Years

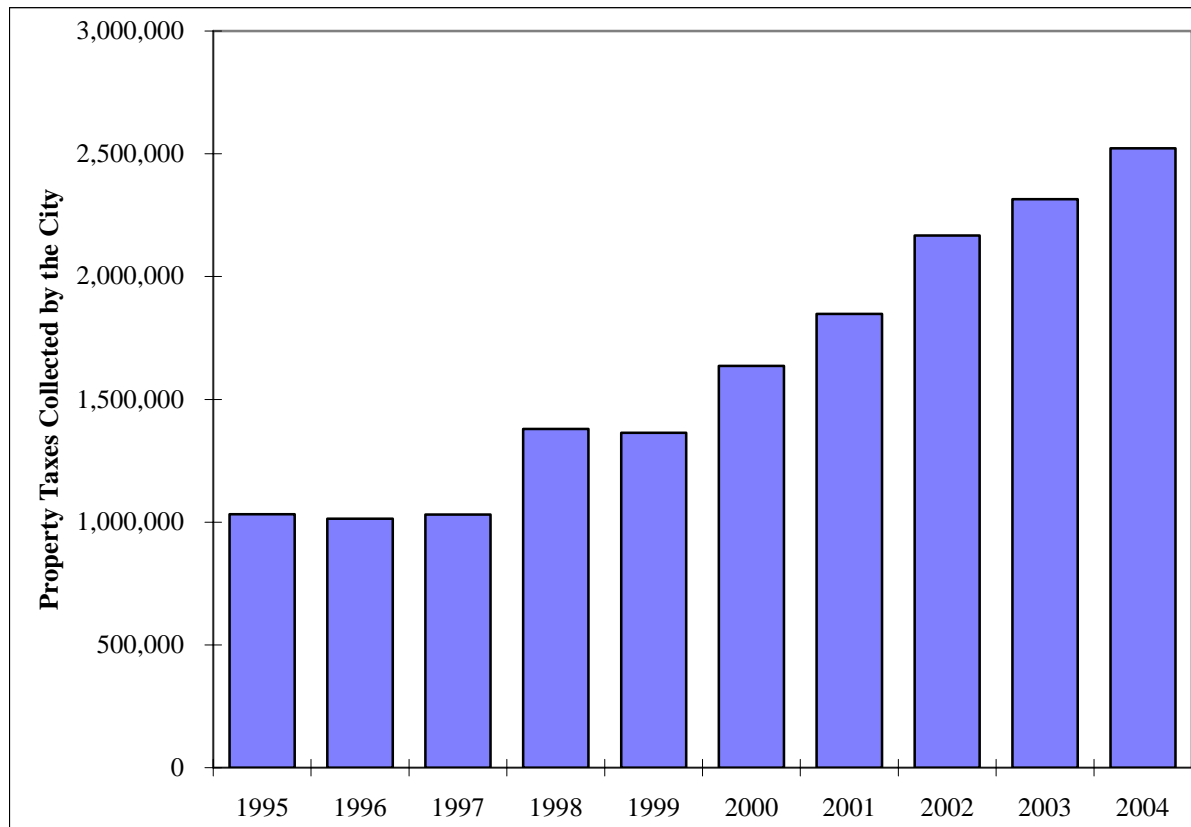


Fiscal Year	Secured Property	Unsecured Property	Total Assessed	Estimated Market
1995	1,802,279,091	74,424,527	1,876,703,618	1,876,703,618
1996	1,872,852,078	89,383,013	1,962,235,091	1,962,235,091
1997	2,067,578,668	104,430,641	2,172,009,309	2,172,009,309
1998	2,165,464,553	117,355,113	2,282,819,666	2,282,819,666
1999	2,425,372,759	143,744,374	2,569,117,133	2,569,117,133
2000	2,765,363,043	141,101,487	2,906,464,530	2,906,464,530
2001	3,138,372,709	163,977,576	3,302,350,285	3,302,350,285
2002	3,527,696,005	196,754,357	3,724,450,362	3,724,450,362
2003	3,900,495,868	280,165,550	4,180,661,418	4,180,661,418
2004	4,232,110,659	257,720,250	4,489,830,909	4,489,830,909

Source: County of Santa Clara Tax Rates and Information

City of Morgan Hill, California

General Fund Property Tax Levies and Collections - Last Ten Fiscal Years

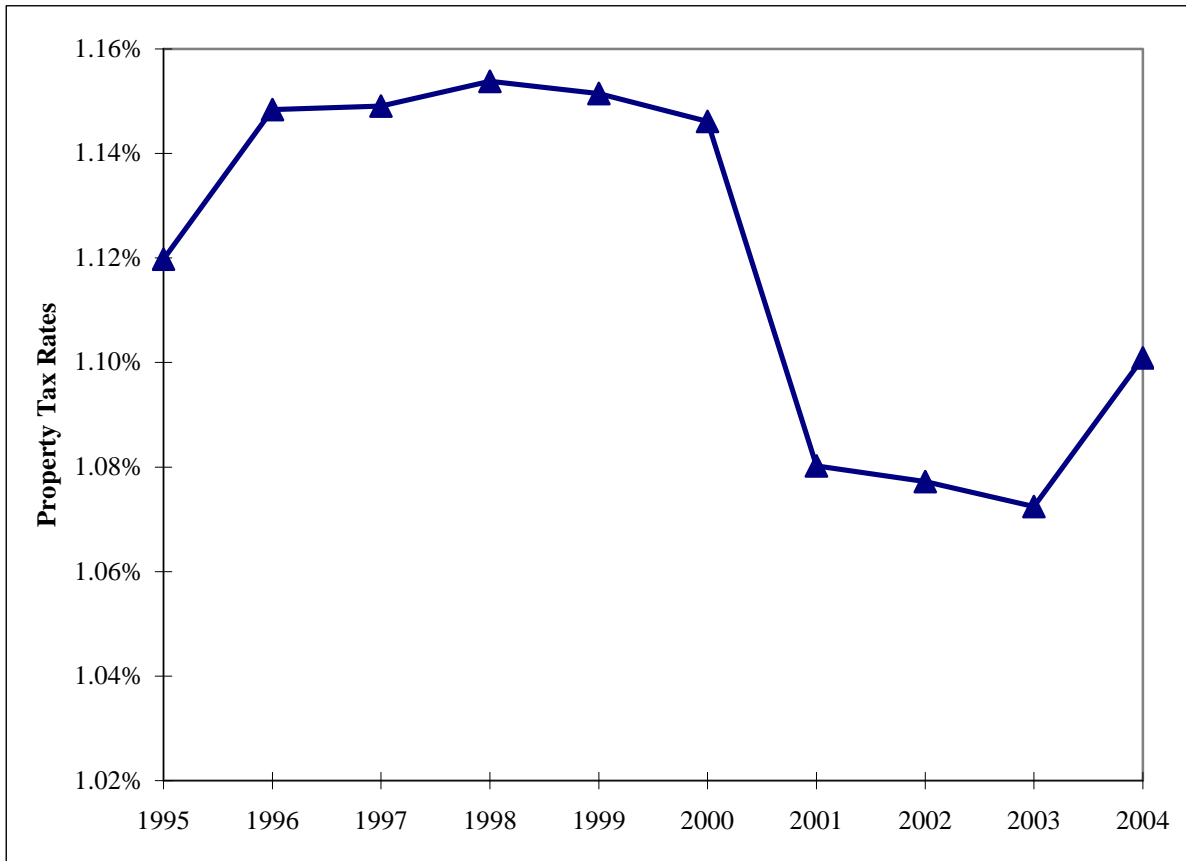


Fiscal Year	Property Tax Levied and Collected		Property Tax Rates		Value of Property Subject to Local Tax Rates
	Total	City's Portion	Total	City's Portion	
1995	21,015,327	1,031,614	1.1198%	4.9089%	1,876,703,618
1996	22,534,308	1,013,276	1.1484%	4.4966%	1,962,235,091
1997	24,958,559	1,030,483	1.1491%	4.1288%	2,172,009,309
1998	26,110,891	1,379,572	1.1538%	5.2835%	2,282,819,666
1999	29,385,562	1,363,527	1.1515%	4.6401%	2,569,117,133
2000	33,310,990	1,635,769	1.1461%	4.9106%	2,906,464,530
2001	35,671,988	1,848,188	1.0802%	5.1811%	3,302,350,285
2002	40,119,779	2,167,507	1.0772%	5.4026%	3,724,450,362
2003	45,034,085	2,315,104	1.0772%	5.1408%	4,180,661,418
2004	49,428,548	2,522,916	1.1009%	5.1042%	4,489,830,909

Sources: City of Morgan Hill Annual Financial Reports
County of Santa Clara Tax Rates and Information
Financial Transactions concerning Cities of California

City of Morgan Hill, California

Property Tax Rates - Direct and Overlapping Governments - Last Ten Fiscal Years



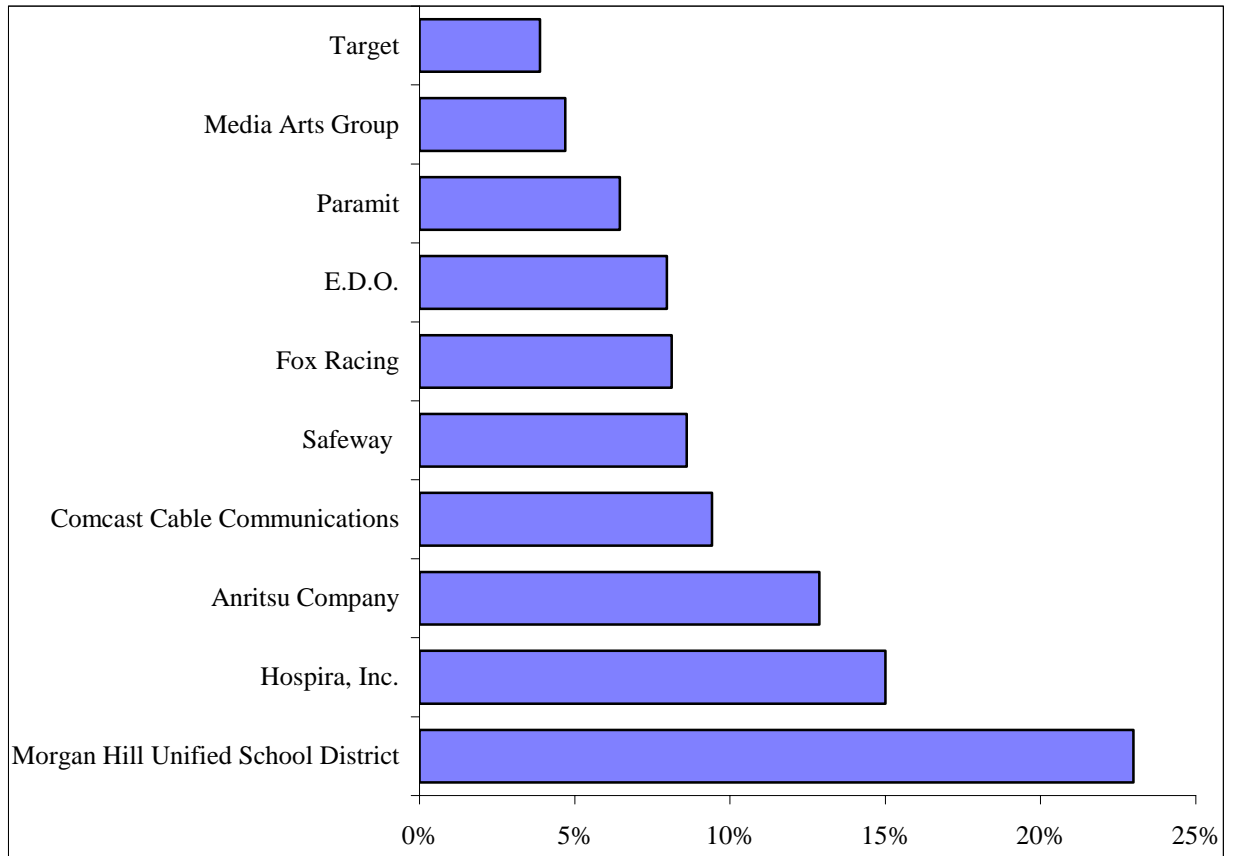
Fiscal Year	Basic County Wide Levy	Additional Approved Supplemental Taxes			Total Tax Rate
		County	City	Schools and Other Districts	
1995	1.0000%	0.0356%	0.0000%	0.0842%	1.1198%
1996	1.0000%	0.0362%	0.0000%	0.1122%	1.1484%
1997	1.0000%	0.0365%	0.0000%	0.1126%	1.1491%
1998	1.0000%	0.0412%	0.0000%	0.1126%	1.1538%
1999	1.0000%	0.0405%	0.0000%	0.1110%	1.1515%
2000	1.0000%	0.0343%	0.0000%	0.1118%	1.1461%
2001	1.0000%	0.0380%	0.0000%	0.0422%	1.0802%
2002	1.0000%	0.0388%	0.0000%	0.0384%	1.0772%
2003	1.0000%	0.0388%	0.0000%	0.0336%	1.0724%
2004	1.0000%	0.0412%	0.0000%	0.0597%	1.1009%

Note: A portion of the Basic County Wide Levy is distributed to Cities, Schools, and Other Districts per State Proposition 13.

Source: County of Santa Clara Tax Rates and Information

City of Morgan Hill, California

Principal Employers

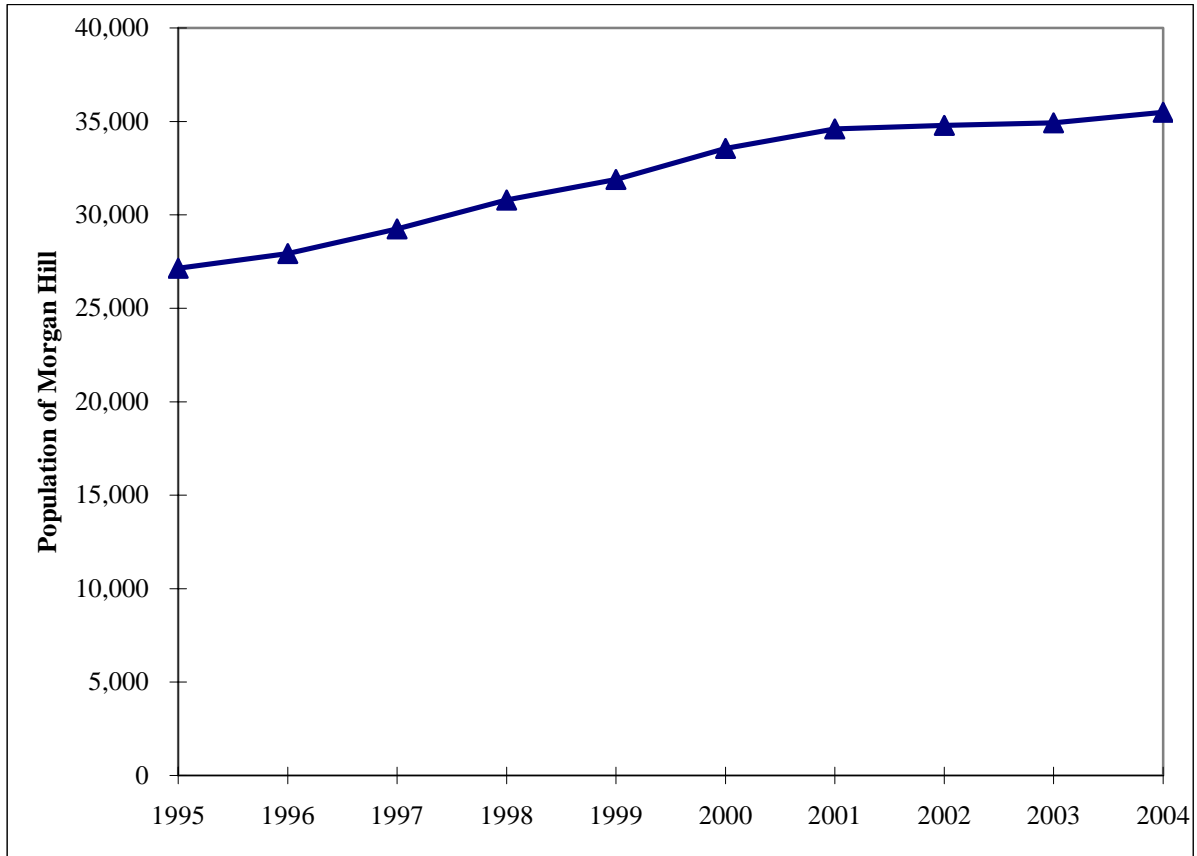


Employer	Number of Employees	Percent of Total
Morgan Hill Unified School District	866	23.0%
Hospira, Inc.	565	15.0%
Anritsu Company	485	12.9%
Comcast Cable Communications	355	9.4%
Safeway	324	8.6%
Fox Racing	306	8.1%
E.D.O.	300	8.0%
Paramit	243	6.5%
Media Arts Group	177	4.7%
Target	146	3.9%
Total Employees of Principal Employers	3,767	100.0%

Source: City of Morgan Hill Business License Renewal Report

City of Morgan Hill, California

Demographic Statistics - Last Ten Fiscal Years

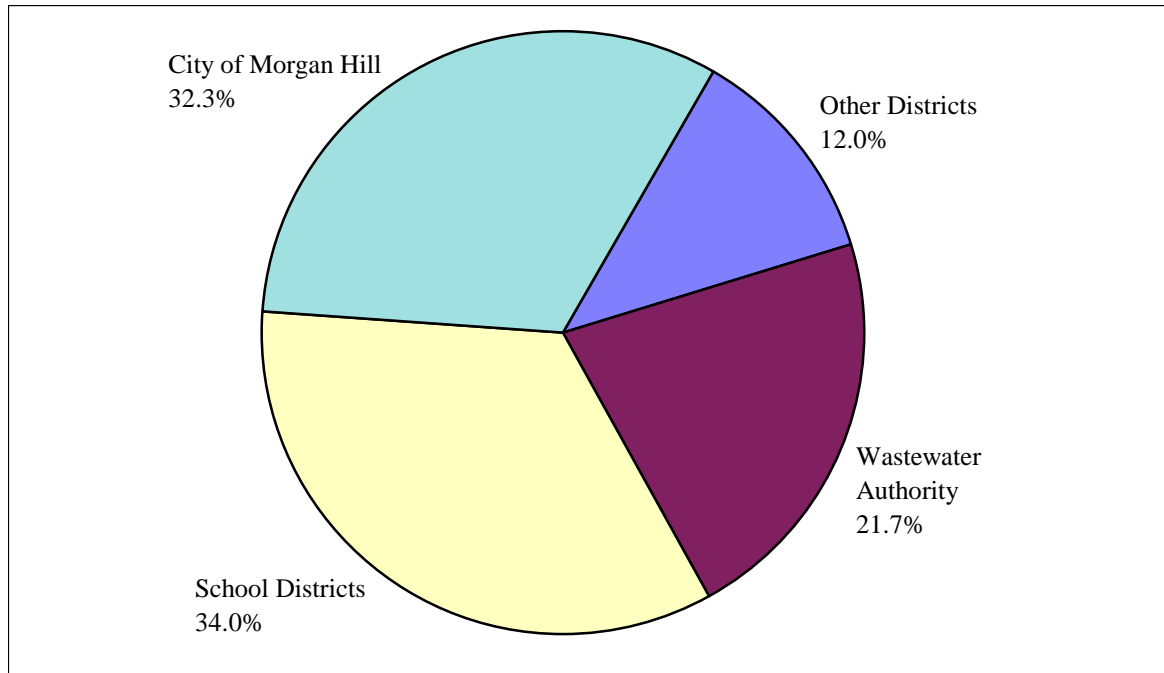


Fiscal Year	City Population	Santa Clara County Population	City Population as % of County's	Growth Rate for Year
1995	27,138	1,606,908	1.7%	3.2%
1996	27,933	1,612,258	1.7%	2.9%
1997	29,246	1,650,000	1.8%	4.7%
1998	30,786	1,653,100	1.9%	5.3%
1999	31,896	1,658,000	1.9%	3.6%
2000	33,550	1,682,585	2.0%	5.2%
2001	34,600	1,697,812	2.0%	3.1%
2002	34,785	1,719,565	2.0%	0.5%
2003	34,918	1,729,917	2.0%	0.4%
2004	35,489	1,731,400	2.0%	1.6%

Source: State of California Department of Finance-Population Research Unit

City of Morgan Hill, California

Schedule of Direct and Overlapping Debt at June 30, 2004



Name of Entity	% Applicable To the City	Debt Applicable To the City
Santa Clara County General Fund Obligations	1.3170%	\$ 8,297,627
Santa Clara County Board of Education Certificates of Participation	1.3170%	\$243,777
Santa Clara Valley Water District Certificates of Participation	1.3170%	2,595,939
Gavilan Joint Community College District Certificates of Participation	16.9780%	339,560
Morgan Hill Unified School Lease Tax Obligations	45.1220%	32,522,924
City of Morgan Hill Certificates of Participation	100.0000%	4,360,000
City of Morgan Hill 1915 Act Bonds	100.0000%	26,490,000
South County Regional Wastewater Authority	100.0000%	20,734,494

Total Gross Direct and Overlapping Debt \$ 95,584,321

Less: South County Regional Wastewater Authority (20,734,494)
 (100% Self Supporting from Sewer Service and Connection fees)

Total Net Direct and Overlapping Debt \$ 74,849,827

Ratios to Assessed Year Valuation

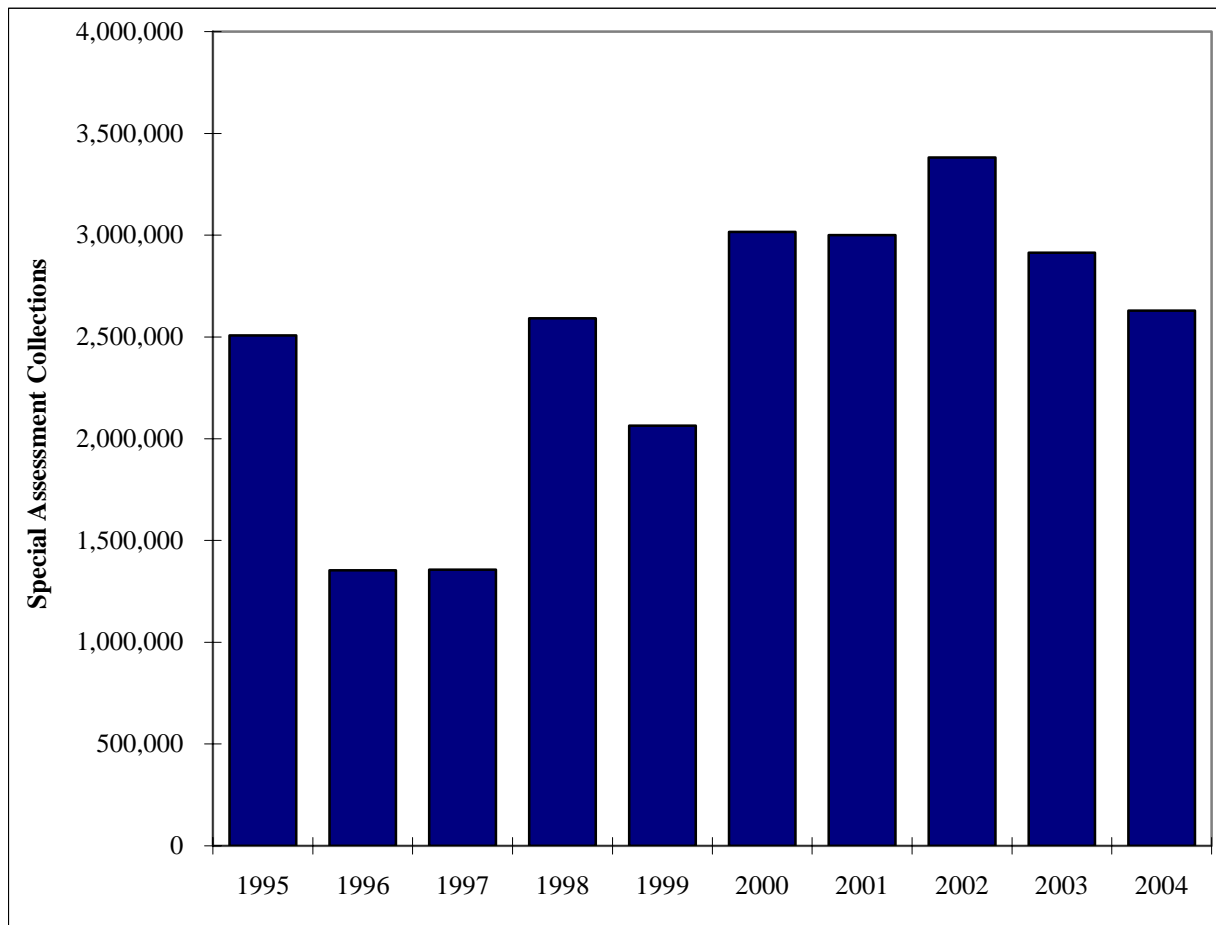
Direct Debt issued by the City of Morgan Hill	0.69%
Total Gross Debt	2.13%
Total Net Debt	1.67%

Note: % applicable to the City reflects portion of outstanding debt paid by Morgan Hill property owners.

Source: California Municipal Statistics and City of Morgan Hill Annual Financial Reports

City of Morgan Hill, California

Special Assessment Billings and Collections - Last Ten Fiscal Years



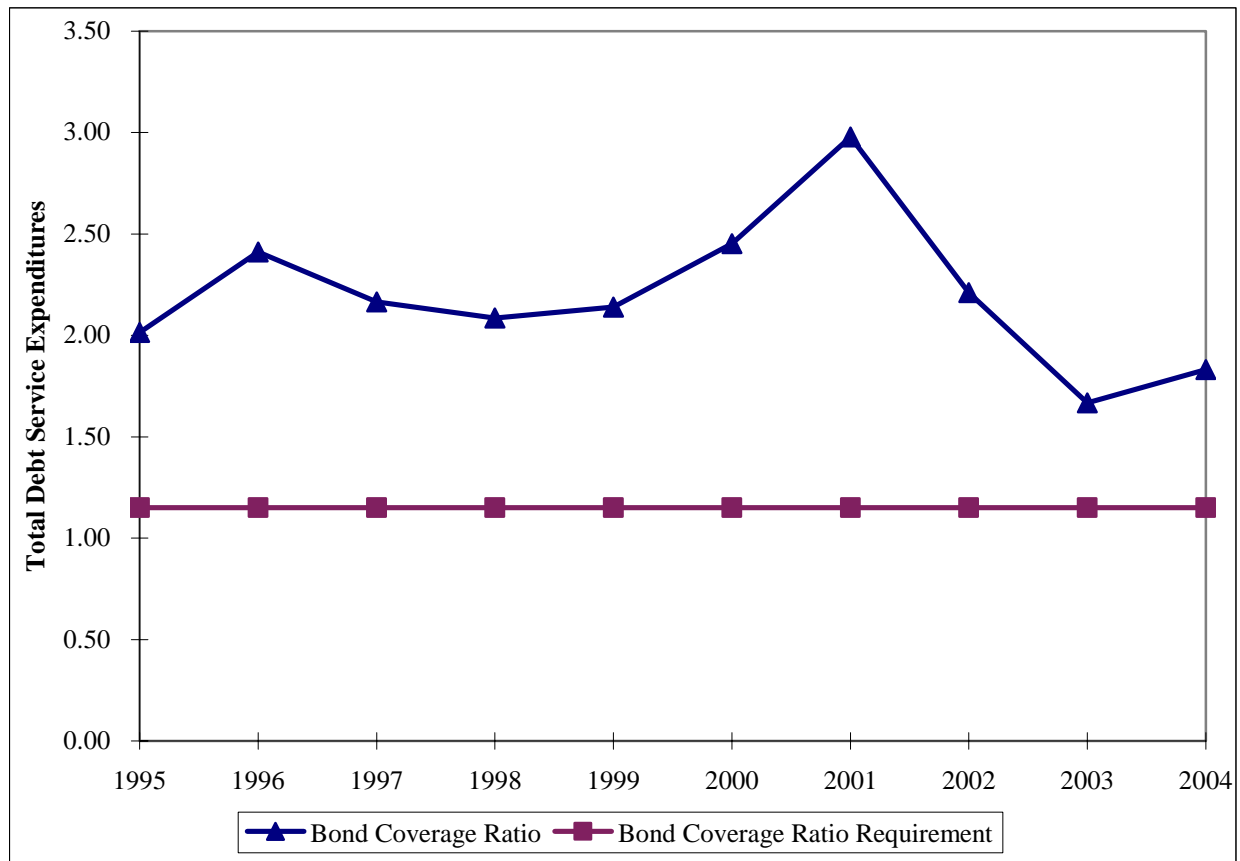
Fiscal Year	Special Assessment	
	Billings	Collections
1995	2,656,464	2,507,826
1996	1,382,183	1,353,589
1997	1,276,808	1,357,446
1998	2,331,787	2,591,476
1999	2,227,057	2,064,086
2000	2,920,472	3,016,811
2001	2,657,811	3,000,889
2002	3,294,975	3,381,575
2003	2,913,141	2,913,141
2004	2,803,614	2,629,267

Note: Collections include collection of taxes delinquent in prior year.

Sources: City of Morgan Hill Annual Financial Reports
NBS Government Finance Group Special Assessment Annual Reports

City of Morgan Hill, California

Sewer Revenue Bond Coverage - Last Ten Fiscal Years



Fiscal Year	Gross Revenue	Direct Operating Expense	Net Revenue Available for Debt Service	Debt Service			Bond Coverage Ratio	Bond Coverage Ratio Requirement
				Principal	Interest	Total		
1995	6,676,176	2,337,546	3,188,863	35,000	1,547,408	1,582,408	2.02	1.15
1996	7,364,965	2,916,199	4,448,766	35,000	1,809,981	1,844,981	2.41	1.15
1997	7,588,490	3,034,977	4,553,513	505,000	1,599,054	2,104,054	2.16	1.15
1998	8,087,634	3,644,931	4,442,703	530,000	1,599,943	2,129,943	2.09	1.15
1999	8,107,084	3,500,574	4,606,510	560,000	1,592,583	2,152,583	2.14	1.15
2000	8,700,586	3,479,152	5,221,434	590,000	1,539,546	2,129,546	2.45	1.15
2001	9,596,371	3,309,528	6,286,843	625,000	1,486,157	2,111,157	2.98	1.15
2002	8,268,772	3,573,286	4,695,486	655,000	1,469,825	2,124,825	2.21	1.15
2003	6,418,828	3,954,415	2,464,413	635,000	843,813	1,478,813	1.67	1.15
2004	8,128,016	4,518,221	3,609,795	1,115,000	855,638	1,970,638	1.83	1.15

Note: Bond coverage ratio was calculated by dividing Net Revenue Available for Debt Service by Annual Debt Service Payment. Includes 1979 Sewer Revenue Bonds and Sewer Capacity Rights Payable. Includes both Sewer Operating and Sewer Mitigation Enterprise Funds.
Direct operating expense is net of depreciation and amortization.

Source: City of Morgan Hill Annual Financial Reports

City of Morgan Hill, California

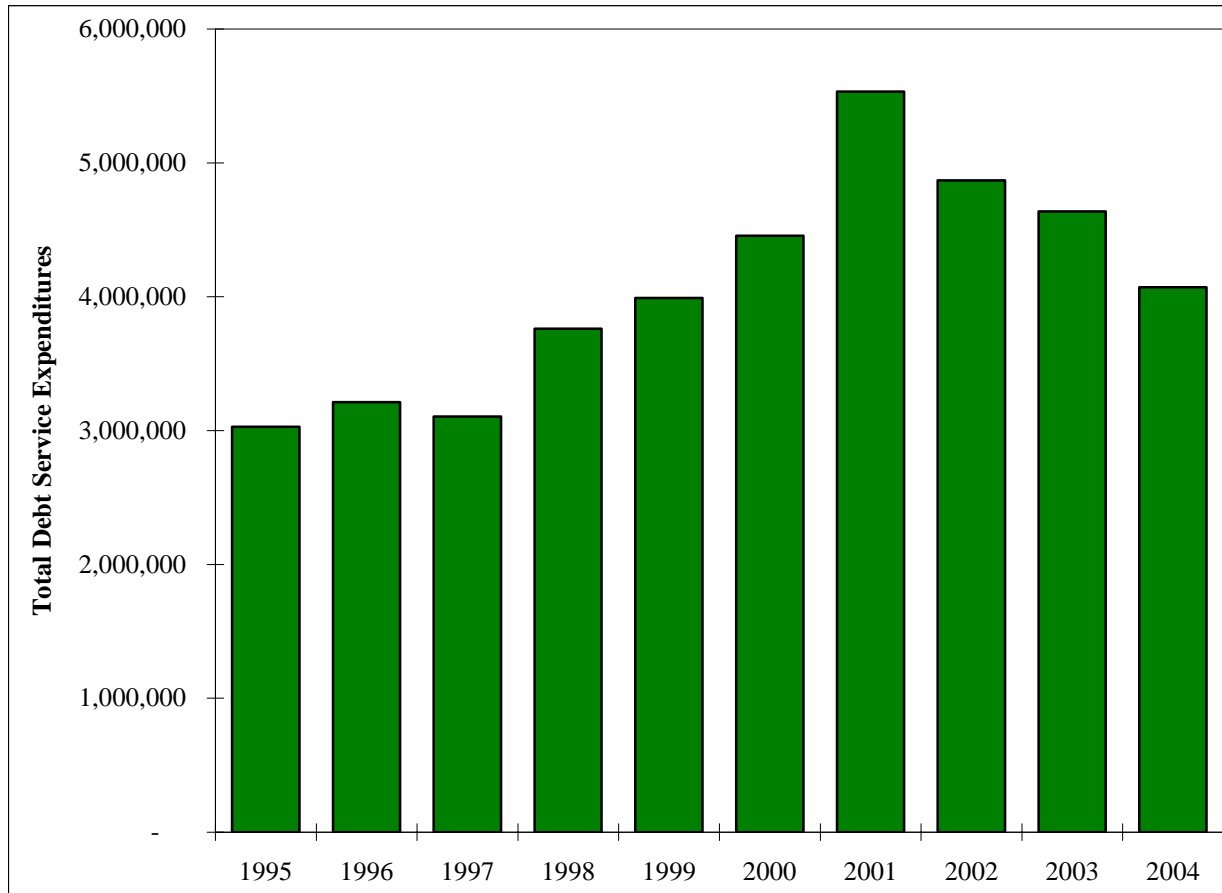
Computation of Legal Debt Margin June 30, 2004

ASSESSED VALUE - SECURED PROPERTY	\$	4,232,110,659
Debt Limit Percentage		<u>15%</u>
Total Debt Limit	\$	634,816,599
AMOUNT OF DEBT SUBJECT TO LIMIT:		
Total Bonded Debt		27,756,778
Less: Special Assessment Bonds		1,195,000
Capacity Rights Payable		<u>21,709,494</u>
Amount of Debt Subject to Limit		<u>4,852,284</u>
LEGAL DEBT MARGIN	\$	<u><u>629,964,315</u></u>

Source: City of Morgan Hill Finance Department

City of Morgan Hill, California

Sales Taxes - Last Ten Fiscal Years



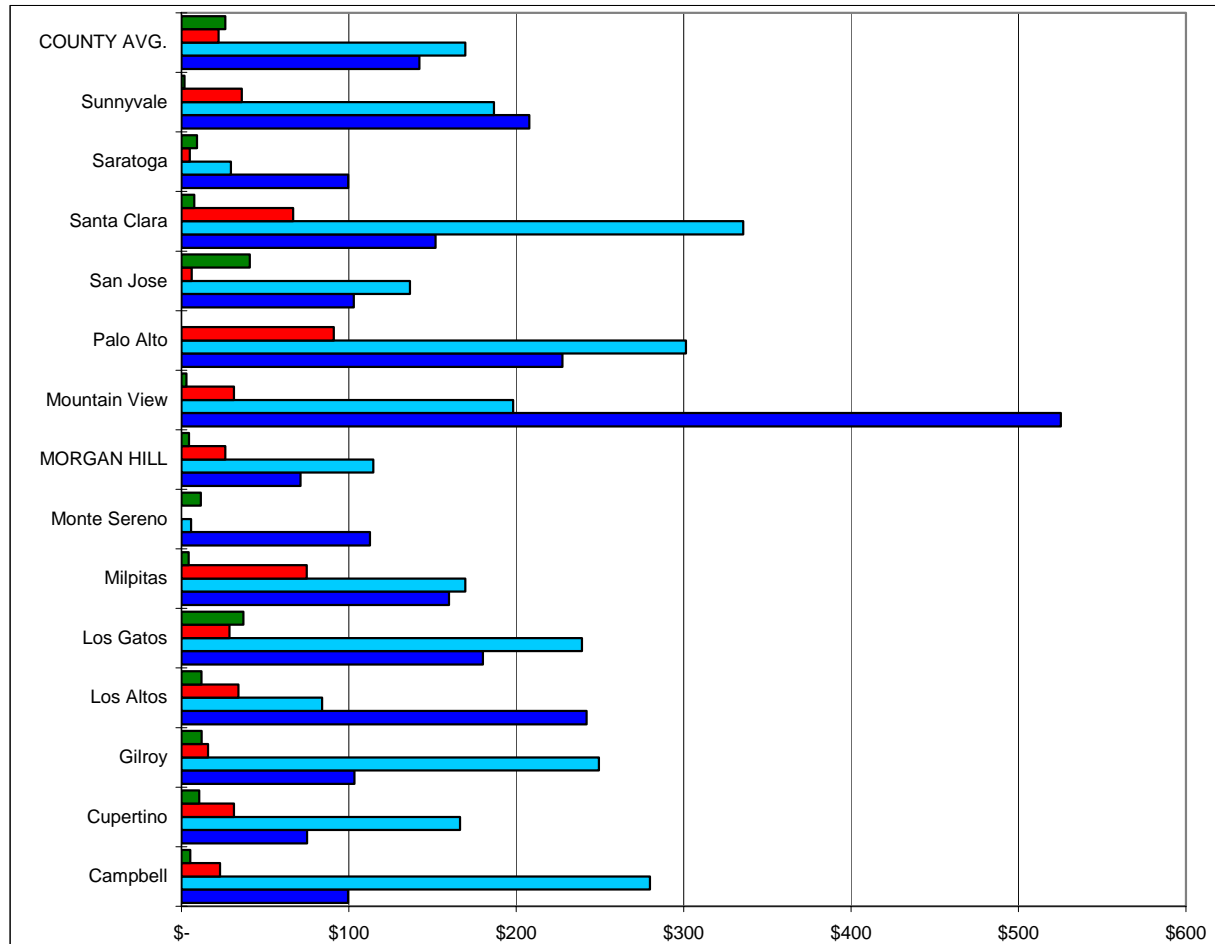
Fiscal Year	Sales Tax Received by City	% Change
1995	3,028,094	14.2%
1996	3,213,586	6.1%
1997	3,104,685	-3.4%
1998	3,762,371	21.2%
1999	3,990,716	6.1%
2000	4,454,774	11.6%
2001	5,532,132	24.2%
2002	4,870,295	-12.0%
2003	4,636,927	-4.8%
2004	4,070,030	-26.4%

Source: City of Morgan Hill Annual Financial Reports

Note: Above does not include public safety sales tax which is reported as funding from other governmental agencies.

City of Morgan Hill, California

Property Tax per Capita, Sales Tax per Capita, Transient Occupancy Tax per Capita, and Business License Tax Per Capita - Santa Clara County Cities - 2003-04

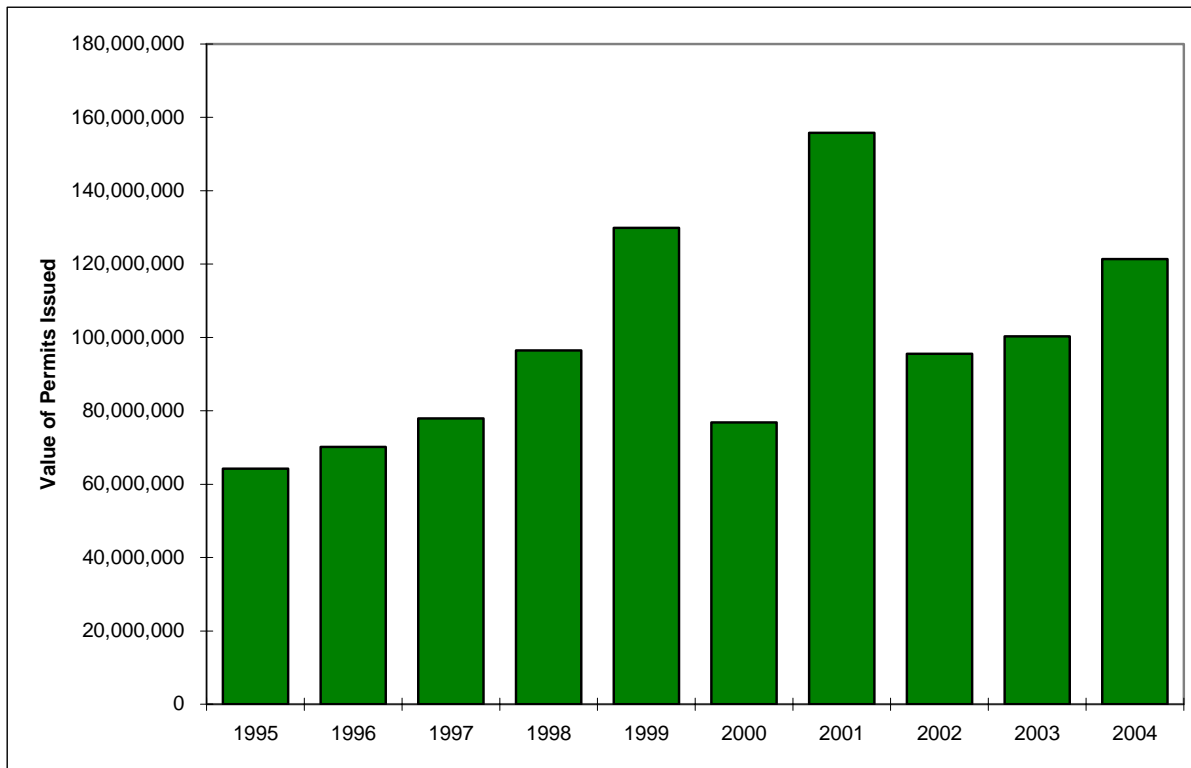


City	Population	Property Tax		Sales Tax		Transient Occupancy		Business License	
		Amount	Per capita	Amount	Per capita	Amount	Per capita	Amount	Per capita
Campbell	38,179	\$ 3,798,505	\$ 99	\$10,684,234	\$ 280	\$ 882,464	\$ 23	\$ 203,520	\$ 5
Cupertino	52,000	3,908,165	75	8,654,185	166	1,632,514	31	556,697	11
Gilroy	46,195	4,772,118	103	11,514,699	249	737,746	16	557,008	12
Los Altos	27,722	6,707,236	242	2,330,608	84	945,649	34	333,668	12
Los Gatos	28,910	5,207,381	180	6,914,526	239	829,026	29	1,071,865	37
Milpitas	62,698	10,015,238	160	10,635,247	170	4,692,736	75	272,269	4
Monte Sereno	3,500	394,000	113	20,228	6	-	-	40,656	12
MORGAN HILL	35,489	2,522,916	71	4,070,030	115	933,041	26	156,861	4
Mountain View	71,616	37,615,600	525	14,188,500	198	2,246,000	31	216,000	3
Palo Alto	60,246	13,707,000	228	18,151,000	301	5,489,000	91	-	-
San Jose	926,200	95,457,834	103	126,426,092	136	5,711,809	6	37,776,270	41
Santa Clara	107,200	16,268,215	152	35,976,144	336	7,159,622	67	827,226	8
Saratoga	30,300	3,020,516	100	895,028	30	149,316	5	282,553	9
Sunnyvale	131,709	27,367,042	208	24,599,056	187	4,751,669	36	244,286	2
COUNTY AVG.	115,855	\$16,482,983	\$ 142	\$19,647,113	\$ 170	\$2,582,899	\$ 22	\$3,038,491	\$ 26

Source: Cities in Santa Clara County

City of Morgan Hill, California

Property Values, Construction and Bank Deposits - Last Ten Fiscal Years



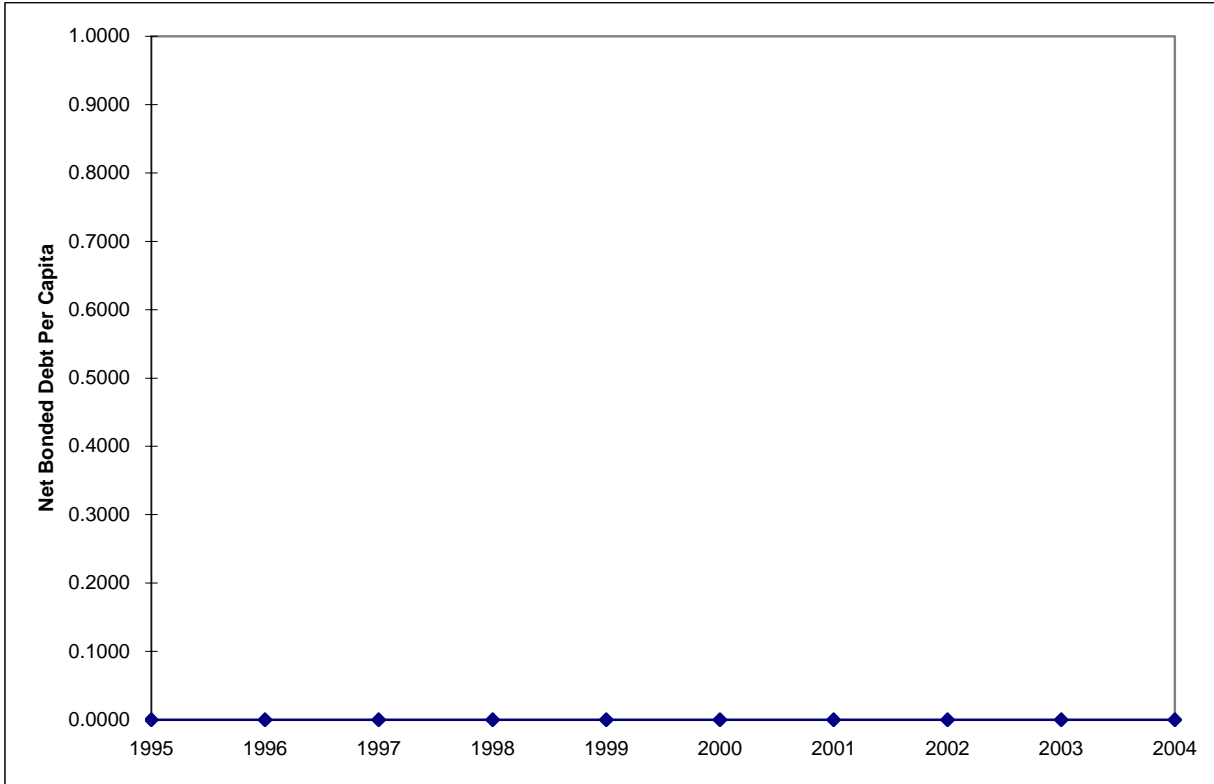
Fiscal Year	Assessed Property Values	Total Building Permits Issued	Value of Permits Issued for			Bank Deposits
			Commercial	Residential	Total	
1995	1,962,235,091	1,286	6,082,710	58,111,838	64,194,548	301,016,000
1996	2,172,009,309	566	14,334,753	55,795,905	70,130,658	308,311,000
1997	2,172,009,309	995	16,961,251	60,944,868	77,906,119	336,742,000
1998	2,282,819,666	934	35,615,808	60,840,534	96,456,342	368,886,000
1999	2,569,117,133	1,232	45,455,893	84,442,562	129,898,455	395,645,000
2000	2,906,464,530	1,312	31,214,390	45,608,507	76,822,897	467,837,000
2001	3,302,350,285	1,400	106,912,266	48,895,813	155,808,079	550,718,000
2002	3,302,350,285	1,457	22,044,283	73,537,055	95,581,338	554,694,000
2003	3,724,450,362	1,388	22,048,822	78,302,630	100,351,452	596,788,000
2004	4,489,830,909	1,407	36,876,375	84,488,801	121,365,176	N/A

Note: Total bank deposits within the City were not available for the year 2004

Source: City of Morgan Hill Building Department
Bank Deposits from Findley Reports

City of Morgan Hill, California

Net General Obligation Bonded Debt to Assessed Value/Net General Bonded Debt per Capita

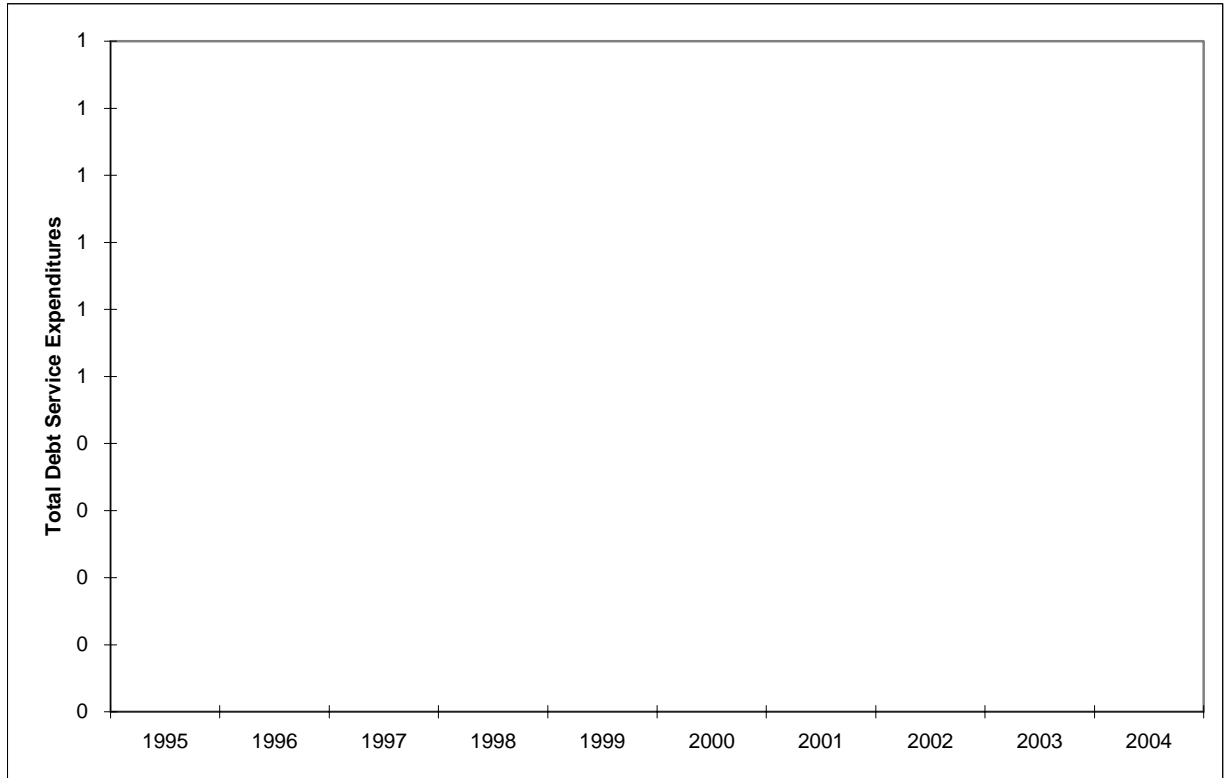


Fiscal Year	Population	Assessed Value	Outstanding Net General Bonded Debt	Net General Bonded Debt Per Capita	Net General Bonded Debt to Assessed Value
1995	27,138	1,876,703,618	0	0.0000	0.0000%
1996	27,933	1,962,235,091	0	0.0000	0.0000%
1997	29,246	2,172,009,309	0	0.0000	0.0000%
1998	30,786	2,282,819,666	0	0.0000	0.0000%
1999	31,896	2,569,117,133	0	0.0000	0.0000%
2000	33,550	2,906,464,530	0	0.0000	0.0000%
2001	34,600	3,302,350,285	0	0.0000	0.0000%
2002	34,785	3,724,450,362	0	0.0000	0.0000%
2003	34,918	4,180,661,418	0	0.0000	0.0000%
2004	35,489	4,489,830,909	0	0.0000	0.0000%

Sources: City of Morgan Hill Annual Financial Reports
County of Santa Clara Tax Rates and Information

City of Morgan Hill, California

General Bonded Debt Service Expenditures to Governmental Fund Expenditures



Fiscal Year	Principal	Interest and Fiscal Agent Charges	Total Debt Service	Total Governmental Fund Type Expenditures	Percent of Debt Service to Governmental Fund Expenditures
1995	0	0	0	20,313,961	0.00%
1996	0	0	0	21,887,648	0.00%
1997	0	0	0	20,867,358	0.00%
1998	0	0	0	25,294,655	0.00%
1999	0	0	0	26,132,092	0.00%
2000	0	0	0	29,956,545	0.00%
2001	0	0	0	31,766,520	0.00%
2002	0	0	0	48,258,871	0.00%
2003	0	0	0	43,923,233	0.00%
2004	0	0	0	67,651,364	0.00%

Source: City of Morgan Hill Annual Financial Reports

City of Morgan Hill, California

Miscellaneous Statistics June 30, 2004

General Information

Date of Incorporation	October 1906
Form of Government	Council/Manager
Area	12 square miles
Miles of Streets	114
Number of Street Lights	4,552
Taxable Sales	\$407,003,000
Number of Registered voters	19,690
Median household income for Morgan Hill	\$81,958
Elevation in feet	320
Building Permits Issued during year	1,407

Demographics:

Median Age	34.0
Median Persons per household	3.0
Population (consisting of)	35,489

White	63%
Hispanic	28%
Asian	6%
Black	2%
Other	1%

Fire Protection:

Number of stations	2
Number of engines	3

Police Protection:

Number of stations	1
Number of personnel	56
Number of reserves	5
Number of police cars	13

Municipal Water Services:

Number of Active Accounts	11,477
Average Daily Consumption (gallons)	7,481,317
Miles of Water Mains	164
Pumping Capacity (gallons/day)	12,381,120

Sewer Services

Peak Flow (gallons/day)	5,209,000
Miles of sewer lines	139

Education:

Elementary Schools	9
Junior High and High Schools	4
Total Average Daily Attendance	8,245

Health Facilities:

Dentists and Optometrists	27
Physicians/Surgeons	8
Chiropractors	11
Physical Therapists	6
Medical Clinics	4
Veterinarians	5

Culture and Recreation:

Parks	9
Acres in parks	58
Libraries	1
Theaters	2
Churches	20
Radio Stations	2
Reservoirs	11

Employees:

Administration and Finance	37
Police Officers and Support Staff	46
Community Development	22
Public Works and Engineering	58
Economic Development	10
Police Dispatch Services	10

Total Employees 182

Property Tax Rates and Amount Levied:

Total (1)	1.10%	\$ 49,428,548
City's Portion (2)	5.10%	\$ 2,522,916

Note: (1) Excludes allocations collected by Special Assessment Districts.
(2) Excludes allocations collected by RDA.

Sources: Various School District Attendance and City Records, Morgan Hill Chamber of Commerce Directory

